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1. The first part of the document is a list of the names of the persons who have been appointed to the various offices of the Board of Directors of the Corporation.





THE  
**Art of Collecting**

*A Statement of the Underlying Principles and  
Practices of Collecting, with Suggestions,  
Forms of Reports, Letters, etc., etc.*

**For the Collection Manager and the Business Man**

**By R. J. CASSELL**  
*Collection Manager, Grinnell Brothers, Detroit*



NEW YORK  
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1913

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DEDICATED TO  
MY WIFE  
THE INSPIRATION  
OF MY LIFE



## PREFACE

When we consider that in the two decades between 1880 and 1900 the public wealth of the United States increased from \$42,000,000,000 to \$94,000,000,000—or more than doubled—we must admit the truth of Emerson's assertion that America is another name for Opportunity.

It is a known fact that 95% of the business of the country is done on credit; and, as credit necessitates collecting, the importance of this latter subject is obvious, as is also the vast field open to the man with a specialized knowledge of the collection business.

The average man is too busy with the selling or producing end of his business to give the necessary time and thought to the Collection Department; and inefficient methods are common. This has prompted the author to prepare the present book, which gives not mere theories, but actual working plans—plans which have achieved success. It contains the results of his experience during many years of practical collecting, and gives the facts which the collection manager must know, whether he be acting as collection manager for his own house or in the collection department of some other concern.

In the larger businesses the best results will undoubtedly be obtained by the employment of trained experts. As Edward P. Hatch, president of Lord & Taylor, has observed, business men often fail because they under-

## PREFACE

take that for which they lack the necessary capacity or qualifications, being perhaps not fully conscious of the deficiency. He says:

"Success comes from knowing whether you yourself can do a particular thing better than someone else, or vice versa. If you are satisfied that you cannot, then hire someone else to do it." Nowhere is this more true than in the collection department.

The business man of today is realizing more and more, first, the absolute necessity of collecting the money for the goods which he has sold, or, in other words, the folly of selling goods for which he is not paid, and, second, the advantage of employing an expert to do this collecting. Thus the field for the collection expert is broadening every day, and the young man who makes this his career may be reasonably sure of always having employment. In bad times he will be needed to get in every possible cent of outstanding accounts, and in good times to watch and keep within bounds the ever-increasing credits.

But the would-be collector must possess a clear and practical knowledge of the collection business. The manufacture of collection experts has been undertaken in some quarters by means of elaborate courses of instruction; but, while the author has no wish to belittle such methods, he is no great believer in their usefulness. Such courses cannot take the place of actual experience, and the necessary information can perhaps be better acquired by careful study of the literature available on the subject of collections.

The thanks of the author are due the National Association of Credit Men and its officers for courtesies extended, and particularly for permission to use the

## PREFACE

very valuable material appearing in the Appendix of the present volume.

The author also desires to thank the editorial staff of the Ronald Press Company for very efficient assistance in the editing and arrangement of this work. Acknowledgments are also due to the Bradstreet Company for assistance in connection with the chapter on Mercantile Agencies.

R. J. CASSELL.

Detroit, Michigan, August 6, 1913.



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# The Art of Collecting

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## CHAPTER I

### THE COLLECTION MANAGER AND HIS WORK

#### **Credits and Collections**

Specialization has been forced upon the business man by the increasing complexities of present-day business problems. To do business on a large scale—sometimes, indeed, on any scale—credit must be given. As a matter of fact, 95 per cent of the business of the country is done on credit; and for this reason any business of magnitude must have departments for credits and collections, and in both these departments must be men of special skill in the work.

It has been said that collections should be made in the credit department; and, in fact, the two departments of credits and collections are so closely allied that it is hardly possible to separate them. It has also been said that if a credit man could be found who was infallible there would be no need of a collection department. But the perfect credit man has yet to be discovered, and in the average business collecting is a dire necessity. No matter how careful the credit department, a mistake will occasionally occur, or conditions will change after a credit is

granted, or misrepresentations will secure a credit that should never have been given, and in any such case careful collecting is necessary to save the account.

### **Close Collecting**

The importance of a proper system of collecting can hardly be overestimated. It is worse than useless to sell goods unless these goods are paid for. The credit man can do much to insure payment, but upon the collection department falls the burden of seeing that payment is actually made.

Generally speaking, collecting should be close. When money is due it should be paid. Many debtors think that if they pay interest on their accounts the concern with which they are doing business should be willing to carry them indefinitely. When, however, it is taken into consideration that a business can and should make from 10 to 20 per cent or more on the cash capital employed, it is clear that 6 per cent from a customer is not an adequate consideration for carrying the account. Nor does the ordinary mercantile concern desire to engage in the business of loaning money. The debtor should go to the bank if he wishes such accommodation.

Among the many advantages of close collecting is the obvious fact that the money is better employed in discounting bills, which means to many concerns a yearly saving of thousands of dollars, than in carrying overdue accounts. Buy right, discount bills, and it is easy to sell at a profit. But, unless the merchant has unusually ample capital, it is impossible for him to discount his bills unless his accounts are closely collected. A good system of collecting, rightly managed, is the equivalent of in-

creased capital, and it is the lack of capital which causes no less than 32 per cent of all business failures.

Also, close collecting helps to retain good-will. A man who sustains large losses yearly because of failure to collect must charge a higher price for his goods in order to show a profit. The wise buyer is fully aware of this fact, and has much more confidence in, and is a great deal more willing to do business with, a man who insists on his money when it is due. Also close collecting often increases sales, for a delinquent debtor hesitates to add to a past-due account, even when this is permitted, and places his next order with the house which has compelled him to keep a clean slate. To be sure, collections, and particularly close collections, must be handled with tact and judgment; but these are merely the ordinary qualifications of a successful collection manager. If the accounts are properly handled, the "worth while" customers will not object to close collections—in fact, as soon as they understand that this is the rule and the custom of the concern, they will cheerfully fall into line, and will, as a mere matter of course, pay when payment is due.

This is true for the most part, but some men will always be found who can pay if they must, but who will not pay if they can avoid payment, and, if they must pay, will postpone the evil day to the uttermost. For this reason "keeping everlastingly at it" is necessary to success in the collection department. No account is uncollectible until the debtor has passed through bankruptcy, has died without leaving assets, has left the country, or has avoided payment until the account is outlawed—and even then the good collection manager does not entirely despair.

**Conditional Sales**

The system of selling on conditional sales and chattel mortgage has introduced a new element into the collection business. The credit man is not so necessary here, as the title to the goods does not pass to the purchaser until the entire amount is paid; but after the conditional sale is consummated, a man of judgment and great perseverance is needed, to follow the transaction until payment has been made in full. Much of the success of the instalment business depends on the activity and ability of the collection department. It is here that the collection manager has the fullest opportunity for the display of his talents.

**The Collection System**

The collection system installed must depend somewhat on the nature of the business. Once installed, however, it should be strictly adhered to—unless defects show themselves in practice—and be carried out in detail. It is by the use of system that the thousands of accounts of an active business are followed and brought to the attention of the collection manager at the proper time without thought or effort on his part. The many details of collection under a good system can be largely handled by assistants, who merely follow instructions, the chief requirement being accuracy in their work.

**The Collection Manager**

The collection manager may be an independent official; he is frequently one and the same as the credit man; often he and the bookkeeper are one; but whoever or whatever he may be, he occupies a position of the greatest impor-

tance. He is expected to produce definite daily results—results in hard, cold cash, which are necessary for the welfare of the business. If he does not produce these results in some measure, a successor will very promptly usurp his position, or his concern will go into bankruptcy.

For the highest success the collection manager must be a man of experience and trained ability. Beyond this, he must be thoroughly interested in his work. This is a prime requisite, without which there can be no lasting success.

Another essential of the successful collection manager—and of the credit man as well—is the ability to judge of human nature. This is a qualification which can be acquired. If the power were perfectly developed, the science of collections and credits would be an exact one. It is found in its highest efficiency in the man of large experience, whose judgment, based on natural ability, has been broadened and matured by actual service in the field of business. In granting credit too much reliance must not, however, be placed on unsupported judgment of human nature. Nor must appearances be given too much weight, for appearances are sometimes very deceptive, and facts and figures—certified by a public accountant where the matter is important—are a better basis for credit than fine feathers or plausible manners.

Courtesy is another most important qualification of the collection manager—a qualification which anyone can acquire, and for the lack of which there is no excuse. This does not mean that a collector must accept any excuse, or fail to press his claims properly, or weaken in any way in his fair demand, but merely that courtesy must control, no matter how particular conditions are handled.

Sometimes harshness, threats, and an overbearing manner are necessary; but these tactics are always dangerous unless the collector is absolutely sure of his ground. To use such methods arouses the antagonism and opposition of the delinquent, and may drive him away, when otherwise a settlement or satisfactory understanding might have been reached. On the other hand, though the rule is far from infallible, many a debtor has been shamed into making payment simply by courtesy and gentlemanly treatment. The good manager is courteous but firm. He collects closely and clean, but in doing so makes the debtor—now a debtor no longer—his friend, and the friend of his concern. The driving away of customers by improper collection methods is an offense quite sufficient in itself to classify the collection manager as unfit for his position.

The capable collection manager should possess sympathy and imagination. If he shows an interest in the troubles of the debtor, wins his confidence, and gets him to talking, much valuable information may be obtained which may lead directly to the payment of the claim. Where this information is not so directly available, it is frequently true that the collection manager, by placing himself in the debtor's position, and utilizing his own experience of the collection business and his knowledge of the many methods by which payments are made, may be able to suggest a way in which the debtor can meet his obligation. Sympathy must not, of course, be allowed to degenerate into weakness, nor imagination be allowed to warp judgment, but, properly employed, both these are legitimate and valuable aids in collecting.

Two of the most important virtues for the collection



manager are patience and persistence. If not inborn, these must be cultivated, for without them there can be no real success in collecting. The delinquent debtor must be persistently followed, but with patience where patience is necessary. Though rather difficult for the average impulsive American, the collection manager must on occasion be willing to wait quietly for developments. Many an account has been lost through quick, hot-headed action. On the other hand, many accounts actually charged off to profit and loss have been turned into money by patience and persistence on the part of the collection manager.

The collection manager must always bear in mind that financial conditions of individuals, as well as of nations, change with the passage of time, and that the debtor whose bill is uncollectible at one time may be entirely able to pay at another later time. When this time comes, if the debtor knows that the collector is still after him, he will usually settle voluntarily, or, if the account is not outlawed, may be forced to settle by means of legal process. Long-drawn-out accounts of this nature may be charged to Suspense Account or can be written off the books entirely and transferred to a "Doubtful Accounts Ledger" if it is thought best that they should not appear as an asset of the business. To charge off annually a certain percentage, depending on the line of business, or to establish a reserve for bad debts, is a safe precaution.

### **The Collection Manager's Training**

So much for the more important qualifications of the collection manager. Now as to the training necessary for the most effective work. The most important is perhaps business experience. The more he has of this, the better.

No really capable man thinks that he knows it all. For the collection manager—as with every other business man—it is “live and learn,” and he never gets too old to learn something new about his business. This experience must, as a rule, be attained in subordinate positions. The business man has no time to train his collection manager, who must, therefore, come to his work equipped and capable, so that collections can be kept up from the first.

A good knowledge of bookkeeping is most desirable. The collection manager need not be an expert accountant, but he will find a good working knowledge of accounts invaluable. The collection system itself will require the application of many accounting principles, and situations will frequently arise where it is advantageous or even necessary for the collection manager to have a sufficient understanding of accounts to draw proper deductions from balance sheets and statements. At times he can seek the co-operation of the accounting department for solution of the problems which confront him, but he cannot always depend upon this, and should have at least a fair knowledge of accounting in order to handle his work intelligently, and, when he must, independently.

The ability to write a good collection letter is almost essential. In some cases collections are made in person and the collection letter does not enter in at all; but in the great majority of cases the collection manager must do a large part, if not all, of his collecting by mail; and then the ability to write a good collection letter cannot be overestimated. In fact, it then becomes the collection manager's most necessary qualification. The subject of collection letters is treated in detail in Chapters VII-XII of the present volume.

The collection manager should have a good working knowledge of office system. His own department should be carefully systematized, and it is advantageous for him to have an insight into the general office system of the concern he is with, so that he may know what information is available, and, when he wants it, know how to get this information easily and quickly. This promotes the work of the collection department and increases its efficiency.

The collection manager need not be an attorney, but he should possess a good practical knowledge of commercial law. He must know the laws which apply to sales, to debts, and to collections in the states in which he works. He must know what his legal rights are and how to enforce them when necessary. He must know just how far he can go in forcing payment; and he will also find his legal knowledge of much assistance in the adjustment of claims. Speaking generally, he must be sufficiently familiar with the law to keep out of trouble, to know when it is absolutely necessary to employ an attorney, and to know just what is to be expected—as to expenses and as to results—when an attorney is employed. The most important legal remedies are pointed out in Chapter xvi of the present volume, "Legal Phases of Collecting."

Ability in adjusting claims is at times an important qualification for the collection manager. Frequently it is a question of salvage—how much can be secured and what procedure will produce the best results. The most successful collection lawyers of today advise their clients to settle out of court whenever reasonably possible; and the advice is good for the collection manager. A settlement out of court is much more profitable to all concerned; and the good-will of the debtor, which is so important

for future business, can be retained. The collection manager who is able to settle his cases on a reasonable basis out of court will be much more highly esteemed by his house than he who has many lawsuits on his hands.

### **Conditions of the Collection Manager's Work**

The collection manager must make a close analysis of the particular business of his concern and of the conditions under which it is conducted. While collecting is much the same in all kinds of business, there are frequently peculiar conditions—either in the business or among the people to whom sales are made—which will require special treatment. It is obvious that a business selling on the installment plan with numerous small payments, requires a method of collection quite different from that of a business in which the sales are large and the terms of payment to some extent in the discretion of the purchaser.

The collection manager must also make a careful study of the general conditions under which he works—the policy of the house—the scope of his authority—his relations with the credit department and the selling force—any special credit concessions to particular customers or on particular lines. Also, he must possess almost as thorough a knowledge of the goods handled as do the salesmen themselves, so that he may understand complaints, smooth over difficulties, meet objections, and avoid unnecessary friction arising from returns of goods and delays in payment.

When the collection manager has done all this—when he has acquired the experience and the general and special qualifications discussed—when he understands the general requirements of collecting—when he has a thorough

knowledge of the requirements of his particular business—he may still find his work difficult, but he will also find it important, interesting and pleasant, and his success a matter of course.

## CHAPTER II

### CREDIT AND COLLECTION INFORMATION

#### **Credits and Collections**

As already stated, there is no clear line of demarcation between the work of the credit man and that of the collection manager. Collections should begin in the credit department; and the experience of the collection manager in the collection of his accounts bears very directly on the granting of credits. The information necessary for the credit man is also needed by the collection manager. Both must know more or less definitely the financial status of the customer—the credit man to decide the credit to be granted; the collection manager to decide the best method of handling the collection.

Speaking generally, the information relating to customers must be as detailed, as specific, and as extensive as it can reasonably be made. It will, of course, vary with the individual. Some customers are so well known and of such unquestioned financial stability that the merest reference to a rating book is sufficient to justify any ordinary credit. There are many grades of credit applicants below this for whom the ordinary report and ordinary investigation will suffice. When, however, the credit manager reaches the doubtful line, it is time to use exceeding care. His reports should be complete, his information absolute, and his investigations searching, and of sufficient scope to cover all danger points.

It may be noted in passing that credit is not an exact science—that the credit manager must usually take some chances. The credit man who refuses all credits which are not unquestionably and obviously safe will incur no losses for his house, but he will in most cases seriously curtail its business and its profits. In other words, he will cut out a large volume of business, the profits on which would more than justify the risks involved. But while the credit man should be willing to take some risks, he must not gamble. The risks he does take must be intelligent risks.

In addition to the special information in regard to individual customers, the credit man and the collection manager should keep thoroughly posted as to current matters affecting their work. If there is a failure, a death, a fire, a flood, a disturbance of financial condition, or any other disaster or event which affects their customers, they should be prompt to discover the fact, and be as prompt to act upon the information thus obtained. In short, the credit man and the collection manager must both be alert, mentally quick, and continuously "on the job."

### **Scope of Investigations**

In securing credit and collection information the three important "C's" of the credit man—character, capital and capacity—should never be lost sight of. No matter what a man's capital, he is not worthy of credit unless he has character; nor is he a safe credit risk unless he has capacity as well. Character is perhaps the most important of the three, for it means that willingness to pay his debts without which no man is a safe credit risk, no matter what his capital or capacity. All three are, however, essential for the safe extension of credit if the amounts

are large; and it is to the establishment and the measurement of these three requisites that credit investigations are mainly directed.

### **Sources of Information**

The credit or collection manager will naturally avail himself of every possible means of securing credit information. Ordinarily he cannot undertake personal investigations, but must depend upon the reports of others. The ability he displays in doing this is largely a test of his fitness for his position.

Important investigations, especially when they are near at hand, occasionally justify field work on the part of the manager. He should not go in person unless the matter is of sufficient importance, and of such a nature as clearly to call for his personal effort. When, however, the need arises, he must not hesitate to desert his desk and become inquirer, investigator, or detective, as the case demands.

The usual sources of credit and collection information are as follows:

- (1) Reports of commercial agencies.
- (2) Statements furnished by applicants for credit.
- (3) Reports of correspondents.
- (4) Reports of salesmen.
- (5) Reports of collectors.
- (6) Reports from banks.
- (7) Information from merchants' associations; direct interchange of ledger experience.
- (8) Miscellaneous.



**(1) Reports of Commercial Agencies**

The commercial agency report is the usual source of information when questions of credit arise. There are but two national commercial agencies from which such reports are obtained; but there are numerous local and trade agencies which supply reports within a more limited territory, or within special lines of trade. The commercial agencies are considered at length in Chapter XVII.

**(2) Statements Furnished by Applicants for Credit**

The statements which the customer himself furnishes give his own view of his financial condition. Such statements are valuable, but must not be relied upon too fully, as self-interest may lead to misrepresentation or partial information. Even when offered in the best of faith, they usually give the most optimistic view possible of a customer's financial status; and therefore must be regarded as merely a basis for investigation. The statements of such a report are to be substantiated, if they are capable of substantiation, or to be discredited if they are false, or to be brought down to their proper proportions if they are inflated. It is frequently desirable to have these data approved by a certified public accountant, and then analyzed and transferred to a comparative form, in order that the changes in the various items over a period of years may be noted.

The credit manager will usually make up his own form of statement for the applicant to fill out. Some of the more important matters to be covered by such a statement are as follows:

- (1) Members, if a firm, or officers, if a corporation.
- (2) Amount of capital; if a corporation, amount of common stock and preferred stock, if any, and dividend requirements, if any.
- (3) Amount of annual business.
- (4) Assets.
- (5) Liabilities and to whom owed.
- (6) On what basis is stock in trade valued?
- (7) Amount of insurance carried.
- (8) Are accounts and notes receivable correctly valued?
- (9) Are the members—if a firm—sureties for anyone?
- (10) What are the quick assets?
- (11) Are purchases conservative?
- (12) Are credits conservative?
- (13) What other businesses are the members of the firm, or officers of the corporation, engaged in?
- (14) Have wives or relatives of the partners or officers any secret or prior liens?
- (15) If a corporation, are any amounts, not shown among the liabilities, due officers or directors?
- (16) Are any accounts or bills due to or from subsidiary or inter-company business?
- (17) What depreciation on fixed assets is arranged for?
- (18) What mortgages or bonds are held by the firm or corporation, and what property is pledged as security?

In making such a statement, good-will is not considered save under exceptional conditions; and the same rule applies to patents and other assets of an intangible nature.

It may be of interest here to give the "short form" statement recommended by the American Bankers' Association when applications are made for loans:

# CREDIT AND COLLECTION INFORMATION 27

## SHORT FORM STATEMENT

ASSETS					LIABILITIES				
Cash					Notes Payable				
Bills receivable (net)					Accounts Payable				
Accounts receivable (net)					Deposits				
Merchandise					Bonded Debt				
Land					Mortgages				
Buildings					Accrued Liabilities				
Machinery—Fixtures									
					<b>TOTAL</b>				
					Capital				
					Surplus—Profits				
					Reserves				
<b>TOTAL</b>					<b>TOTAL</b>				

**CONTINGENT LIABILITIES.** On bills receivable discounted.....Other.....

**CASH.** On hand and in bank, \$......Names of banks.....

**BILLS RECEIVABLE.** Any overdue or doubtful?.....Any from officers, directors, sub-companies, or similar sources?.....

**ACCOUNTS RECEIVABLE.** State amount doubtful, not from customers or in any way not realizable within immediate future.....

**MERCHANDISE.** Finished.....Unfinished.....Raw.....Valued at cost or market?.....Is all salable?.....

**LAND.** Describe briefly.....Assessed value.....Market value.....

**BUILDINGS.** Cost \$......Age.....Depreciation.....

**MACHINERY AND FIXTURES.** Cost \$......Depreciation.....Condition.....

### **OTHER ASSETS.**

Are any of assets unavailable for paying debts?.....Losses.....

**INSURANCE.** State what kind and amount.....

**NOTES PAYABLE.** To own banks.....Through brokers.....Otherwise.....

**ACCOUNTS PAYABLE.** Terms of purchase?.....Do you discount and anticipate?.....

**DEPOSITS.** Time or demand?.....From whom?.....Interest.....

**BONDED DEBT AND MORTGAGES.** Due?.....Rate.....On what assets a lien?.....

**ACCRUED LIABILITIES.** Itemize.....

**CAPITAL.** Preferred Authorized \$......Issued \$......Dividends.....  
Common Authorized \$......Issued \$......Dividends \$.....

**RESERVES.** Itemize.....

## SHORT FORM STATEMENT (Continued)

NET SALES.

Last fiscal year . . . . .	_____
Cost of sales . . . . .	_____
Gross profit . . . . .	_____
Interest, taxes, depreciation, etc. . . . .	_____
Dividends paid . . . . .	_____
Surplus for year . . . . .	_____

Have the books been audited by a Certified Public Accountant?.....If so,  
give name of firm and date of audit.....

CORPORATE NAME.....

By.....  
(State officer's title)

Date signed.....  
Office address.....Nature of Business.....  
Location of plants and branch offices.....

The searching nature of this statement shows the care with which banks scrutinize applications for loans—which are, in fact, nothing more than applications for credit. The general procedure and the care to be exercised are the same, whether the property involved be cash or merchandise. True, there is a margin of profit when a bill of merchandise is sold which may justify a greater risk than do the small interest returns on a loan, but the general conditions are the same; and the credit man should study the conditions of a proposed credit as carefully as the bank does the conditions of a proposed loan.

That this fact is recognized by the prominent credit men of the country is shown by the very searching forms of statement recommended by the National Association of Credit Men which are given on the following pages. The first form presented is that to be employed when the applicant for credit is a corporation; the next is a portion of the form used for firms, showing the variations occasioned by the different forms of business organization. Both forms are prefaced by an explanatory statement as follows:

# PROPERTY STATEMENT BLANK

RECOMMENDED AND INDORSED BY THE  
NATIONAL ASSOCIATION OF CREDIT MEN

## *THE RECIPROCAL VALUE OF A SIGNED STATEMENT*

Good credit in the markets of the world enables every merchant to add to his ability to do business. It gives him the use of enlarged capital, thus enabling him to carry a more complete stock, increase his sales, and magnify his profits.

Large assets are not always necessary to the creation of credit; what is most desirable is, that credit be in relative proportion to the actual assets, and in harmony with conditions which create and maintain it. A merchant's capital is the sum of his net available resources, plus his credit. The giver of credit is a contributor of capital, and becomes, in a certain sense, a partner of the debtor, and, as such, has a perfect right to complete information of the debtor's condition at all times.

Credit is given a merchant because of the confidence reposed in him. Requesting a statement when credit is asked is not a reflection on one's character, honesty, or business ability, but is done to secure information to enable business to be conducted intelligently.

When a statement is made it should be absolutely correct. To make it so necessitates the taking of at least an annual inventory and the keeping of an accurate set of books. Statement giving, therefore, will tend to make a debtor a better buyer, because more familiar with his stock, more careful in giving credit, more conservative in incurring debt, and will result in a better knowledge of his business generally.

A merchant who desires to serve his own best interests should recognize that his most valuable possession, apart from his actual assets, is a sound, substantial and unquestioned reputation as a credit risk, and that, under the prevailing conditions and demands of business, the most effective, and eminently the best way to prove his basis for credit, is to be willing to submit a statement of his financial condition.

**NOTE:** The above estimate of the value of a statement to both giver and receiver is the embodiment of the thoughts and experiences of scores of the leading credit men of the United States, who are members of the National Association of Credit Men, and who thus desire publicity given to their views in order that there may be the largest benefits to both retailer and wholesaler.

In consideration of your granting credit to the undersigned, we agree that in case of our failure or insolvency, or in case we shall make any assignment for the benefit of creditors, bill of sale, mortgage, or other transfer of our property, or shall have our stock or plant attached, receiver appointed, or should any judgment be entered against us, then all and every of the claims which you have against us shall at your option become immediately due and payable, even though the term of credit has not expired. All goods hereafter purchased from you shall be taken to be purchased subject to the foregoing conditions as a part of the terms of sale.

Please state location and description of each parcel of real estate, and cash valuation of and encumbrances on, each.....

# CREDIT AND COLLECTION INFORMATION 31

What portion of real estate described is home-land?.....

Have you any other debts than herein mentioned?.....

Full given and surname of each partner	Age?	Married?	Possible liability of each member of firm as indorser, bondman, etc.

What kind of business do you conduct?.....

Insurance on stock..... On fixtures, machinery, horses and wagons

..... On real estate.....

..... Amount of sales last year..... Amount of expenses

last year..... What proportion of your sales is on credit?.....

How often do you take an inventory of stock?..... Date of last inven-

tory..... If you have borrowed money in the business, state

what amount is secured and in what way?.....

..... Are any merchandise creditors

secured in any way?..... Have you any judgments, judgment notes,

chattel mortgages, or other liens against you, recorded or unrecorded? If so, describe

..... Suits pending and of what nature.....

..... If you have pledged or transferred outstanding accounts or property

remaining under your control, state amount thereof and amount received, or to be received,

on account of such pledge or transfer.....

..... Keep bank account with.....

What books of account do you keep?.....

.....

Buy principally from following firms:

Name	Address	What line of business?

The above statement, both printed and written, has been carefully read by the undersigned, and is a full and correct statement of my or our financial condition as of.....191.....

Firm signature.....

By-whom signed..... a member of the firm.

All questions must be answered, insert ciphers in absence of any amount. When the words "Yes," "No" or "None" will correctly answer the questions, write them in their proper places.

## THE ART OF COLLECTING

Contingent Liability { Accommodation indorsements .....  
 Indorsed bills receivable and outstanding .....

## OFFICERS.

Name in Full	Address
President .....	.....
Vice-Prest .....	.....
Secretary .....	.....
Treasurer .....	.....

## DIRECTORS.

Name in Full	Address
.....	.....
.....	.....
.....	.....

Authorized capital..... Subscribed..... Paid in.....  
 How paid in: Cash, \$..... Other property..... Description of  
 other property, and how valued.....  
 ..... In whose name is title to real estate held?  
 ..... Incorporated in what State and under what general  
 laws or special act?..... Nature of business?.....  
 Date of charter?..... Suits pending, and of what nature?.....  
 ..... Are any merchandise creditors secured in any  
 way?..... Amount of annual business..... Annual expenses.....  
 Annual dividends..... When was last dividend declared?..... Rate.....  
 Insurance carried on merchandise..... Fixtures and machinery.....  
 Real estate..... Regular time of taking inventory..... Keep  
 bank accounts with.....  
 Keep following books of account.....

If you have pledged or transferred outstanding accounts or property remaining under  
 your control, state amount thereof and amount received, or to be received, on account of  
 such pledge or transfer.....

## Buy principally from following firms:

Name	Address	What line of business?
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

The above statement, both printed and written, has been carefully read by the  
 undersigned, and is a full and correct statement of our financial condition as of  
 ..... 192.....

Corporation Signature.....

By.....

Date.....

All questions must be answered, insert ciphers in absence of any amount. When the  
 words "Yes," "No" or "None" will correctly answer the questions, write them in their  
 proper places.



It is not probable that any of the usual forms of statements or reports will exactly meet individual requirements. The credit man will in most cases find the reports required by the Credit Men's Association and by the commercial agencies too complete; and, in fact, he would find difficulty in inducing his credit applicants to submit so searching a statement. It is, however, easy to select the more essential features from the various reports and combine them into a statement that will meet particular requirements.

### **(3) Reports of Correspondents**

Reports of this nature are useful as confirming or refuting the statements of the applicant for credit and as bringing out new facts. Correspondents' reports will come from various sources. If the house has agencies or representatives in different places, these will naturally supply credit information. As they are "in the family," their reports will, of course, be reliable, and as complete as they can be made.

Where the concern has no representatives, it is sometimes desirable to arrange with local attorneys for reports on credit applicants from their respective territories, paying a stated fee for such reports, or perhaps letting the attorneys' compensation come from the collections and other business placed in their hands. It is obvious that, as the attorney is liable to be called upon to realize upon any bad credits made on the strength of his reports, he is in a somewhat delicate position and will be apt to use much care in his statements.

**(4) Reports of Salesmen**

The traveling salesman is invaluable as a credit reporter. He usually knows the applicant, and, in a general way, knows his circumstances. Also he can, if he will, circulate among the acquaintances of the applicant and in this way get at least an approximate statement of his property and his condition, and a very accurate knowledge of his general reputation. For this reason, if for no other, a friendly feeling should always be cultivated between the credit, the collection and the sales departments, so that when information is required, the salesman will be willing and anxious to obtain it.

It will be found convenient to have special cards for salesmen's reports. These the salesman carries with him, and reports on each sale as made. A very good form of report card for this purpose is as follows:

CREDIT REPORT	
Name.....	Address.....
Has he a good location?.....	Does he gamble?.....
Does he keep a full stock?....	Does he drink?.....
Of whom does he buy?.....	What is his competition?....
.....	.....
Has he competent help?.....	Is he a capable business man?.....
Is his business growing?.....	What is his general reputation for honesty and reliability?.....
Is stock well displayed?.....	Is his store clean?.....
Date.....	Salesman.....

The proper arrangement of such a card is important. Only essential information should be required, and the questions intended to elicit this should be so worded and

so disposed upon the card that the answers may be entered readily. If a card is troublesome to fill out, the salesman postpones it to a more convenient time, which rarely comes, or fills it out hastily and in a partial and inaccurate manner, or gets disgusted and does not bother to fill it out at all. It is usually easy for the salesman to get all the information shown on the foregoing form of card, and it is also easy for him to enter it, as most of the questions can be answered by "Yes" or "No."

#### **(5) Collectors' Reports**

The reports of the collection manager's own collectors should be of the greatest value. These collectors are the manager's direct representatives. They are working with him and under him, and, as soon as they have had sufficient experience, will secure exactly the information he requires. A special form of report for their use will be found advisable. This will vary according to conditions. A good form of report on an individual is that on the following page, which gives an excellent basis both for extension of credit and collection of accounts. Much of this information will be within the collector's own knowledge, or can be obtained from people who know the debtor, and it may be added that much of it could be obtained in no other way. When a collector can be trained to do detective work of this sort with intelligence, he naturally becomes much more valuable even for his ordinary routine duties; and this result is all the more desirable on account of the difficulty usually experienced in obtaining adequately equipped men for this work.

## SPECIAL COLLECTION REPORT

Folio.....	Date of last payment.....
Name.....	Arrearage.....
Address.....	Date of last report.....

When did you last call?.....What did debtor say?.....

.....

Any real estate?.....Give location.....

How improved?.....Encumbrances.....

Valuation..... Value personal property.....

Has he any other obligations than ours?.....To whom?.....

.....What for?.....Amount?.....

How much money in bank?.....What bank?.....

Exact occupation.....

If employed, where?.....

Salary.....weekly.....monthly.....Date of pay day.....

How long in present position?.....

If not employed, how long idle?.....

Prospects of securing work?.....With whom?.....

How many in family?.....What is total income?.....

What is purchaser's reputation as to honesty and payment of debts?.....

Has he any way of securing a loan and paying in full?.....

Can he get a property owner to sign a guarantee?.....

What is your opinion of this sale?.....

Date.....Signature of reporter.....

Any mortgages on the property of a debtor can be discovered by looking over the county or municipal records. Much information of this nature the collection manager can secure for himself. In all the large cities some legal publication is issued daily which publishes all

liens placed on real and personal property; and the collection manager can keep in touch with this by subscribing for such a paper in every district in which important customers owning real estate reside. This will give him prompt notice of any encumbrances placed on their property—information of material value.

The collection manager, or one of his collectors, usually maintains a personal supervision of recorded encumbrances in the home city. He may keep informed as to what is done in other cities, as intimated, by means of published reports. Frequently, however, and necessarily for the smaller and more remote places, he depends on correspondents—usually local attorneys—to keep him informed as to any liens filed on the property belonging to his customers.

#### **(6) Reports from Banks**

The reports of applicants for credit obtained from banks are frequently meagre and unsatisfactory. This is so because banks are very reluctant to make any statements in regard to the financial status of others. If the prospective credit risk is a depositor of the bank, it naturally does not wish to say anything which might injure him. If he is not a depositor, the bank does not, as a rule, wish to take the responsibility of making a report that might possibly involve it in trouble later.

If the collection manager, or his house, does business with, or is on friendly terms with, any of these banks, he may be able to get inside information of material value; but otherwise he will, as a rule, get but little from the banks. Bankers in the smaller towns, however, will frequently give valuable information, especially in regard to

the standing of farmers, of which they usually have an intimate knowledge.

### **(7) Information from Merchants' Association**

There is much freemasonry among merchants in regard to credit information, and in many cases this freemasonry has crystallized in the form of local merchants' associations, organized for the interchange of information in regard to debtors. These associations are very effective and productive of much good.

When a merchants' association is formally organized, an office is usually rented, a secretary with competent assistants is employed, and the merchants composing the association send in reports of their experiences with different customers, and especially with those who are slow pay, or difficult, or bad risks. The secretary of the association keeps this information systematically filed for reference, and furnishes it as desired to any of the members. All the members stand ready to give any proper information asked for on any customer. In this way the deadbeat within the purview of such an association finds it practically impossible to get credit, and moves away to some other place where the merchants are not so progressive and well organized.

Frequently, after a merchants' association of this kind is well organized, a rating book is issued, classing each person as good, slow or bad. The merchant may rely on this book if the requested credit is small, but if the amount of credit asked for is larger, or if he has any doubt, he will ask for a special report from the secretary. Merchants' associations of this kind are frequently termed "credit clearing houses." Of late, largely owing to the

influence and educative work of the National Association of Credit Men, merchants and banks have entered into a free interchange of ledger experience on a reciprocal basis; and this is becoming a most valuable aid to the credit and collection departments.

#### **(8) Miscellaneous**

Another important method of getting at credit and collection information is through customers, who will usually talk very freely about themselves, their neighbors and acquaintances. Such information, while not entirely reliable, is apt to be correct. In most cases it is helpful, and should be made a part of the records in some permanent form.

This method of securing information is, of course, practicable either for the traveling salesman or for the collector as he makes his rounds. Both salesmen and collectors can also secure much valuable information by mere observation. If a home is trim, neat and in good repair, it speaks well for the general character of the family. If a farm is well kept, the machinery properly taken care of, and the buildings in a good state of repair, it is a natural and usually correct inference that the farmer is thrifty and prosperous, and a good credit risk.

In this connection it may be stated that farmers generally make the best of customers, and that it is almost always easy to determine their financial condition. Also, while farmers are commonly slow pay, it is but rarely that a good farmer is bad pay. Many farmers are able to go to the bank and cash their note for any reasonable amount, and through this, by a little management, the

"slow pay" feature, which is somewhat characteristic of farm accounts, may be eliminated entirely.

### Recording Information

The collection manager does not usually need the same exhaustive information as does the credit man. He does, however, at all times, need some information on the accounts in his hands, and, in the case of bad accounts and under certain circumstances, he needs the fullest information possible. He should, therefore, know how to secure this information when it is necessary, and—equally important—know how to record it so that it is conveniently accessible at all times.

The collection manager's information is perhaps best kept on cards, and the following form will be found convenient:

Folio: .....	Name..... Address.....	Wife's name: .....
Occupation: .....	Wages: .....	How long employed? .....
Name of landlord: .....	Amt. of credit: \$.....	Property: .....
References .....		
Rating: Dun, \$. .... Bradstreet, \$. ....		
Report .....		
Remarks .....		



There will doubtless be other facts the collection manager desires to bring in on his cards; and the form can be changed to meet any special requirements. The cards when filled out are filed alphabetically, or, if the number is large, under a geographical arrangement; *i.e.*, all the cards for a certain district or a certain city are grouped together. For instance, under this plan all the cards for the city of Cincinnati are filed under "Cincinnati," and come, on the general alphabetical scheme, under "C." These cards under Cincinnati are in their turn arranged in alphabetical order. Then, if the collection manager wishes information in regard to James Frohman of Cincinnati, he opens his card file at the "C's" and turns to Cincinnati. Under Cincinnati he goes to the "F's" and finds James Frohman's card.

Any special reports may be filed by themselves in jackets or envelopes, and the card on which the name and general statement appear may refer to these special reports, so that a glance at his cards tells the collection manager whether any special reports have been made, and, if so, where these reports are to be found.

## CHAPTER III

### A STUDY OF DEBTORS

#### **Classification of Debtors**

Debtors may be divided into four classes, each requiring different treatment. These classes are as follows:

- (1) Good pay.
- (2) Slow pay.
- (3) Bad pay.
- (4) Execution proof.

#### **(1) Good Pay**

This class comprises those debtors who either pay their accounts voluntarily on or before the due date, or pay when their attention is called to the fact that the accounts are due, or within a reasonable time thereafter. Any customer is considered good who has not reached the "past due" file, even though he may not pay on receipt of the first statement sent him.

Debtors in this class require but little attention. Their accounts should, however, be gone over regularly to see that they are paid when due. There is, in fact, a certain responsibility resting on the collection manager to do this, for it has happened many times that a good-pay customer has fallen from this high estate through pure neglect; *i. e.*, his account has been allowed to run so long that it has either cumulated beyond the debtor's power of

prompt payment, or his affairs have become involved so that he cannot pay the amount, or he finds payment so difficult that he tries to postpone it indefinitely or to evade it entirely.

## **(2) Slow Pay**

The slow-pay class of debtors is usually large, and its membership is recruited from many classes and callings. These slow-pay debtors are not by any means "deadbeats." As a rule they fully intend to pay their debts, but for one reason or another payment is delayed and they are thus brought into the "past due" file. The failure to pay may be due simply to poor management on the part of the debtor, or it may be due to seasonal conditions, or to other circumstances over which he has no control, or in some cases it may be found that demands have arisen which he deems more important, or finds more urgent, than the postponed account. Sometimes it is just simply because the collection manager has not properly followed up the debtor, and so the money that should, and with proper attention would, have gone to paying that particular account, has gone elsewhere.

If slow-pay debtors have been previously on the books, the circumstances of their former payments should be studied. It will usually be found that while they have apparently no regard for the agreed terms of payment, they ultimately settle in full, perhaps at stated times, or perhaps at irregular intervals, depending upon the condition of their affairs. They always pay, however, even though it be according to their own idea of promptness. Their treatment of preceding accounts will probably indi-

cate the proper method of handling the present indebtedness.

Slow-pay debtors are often found in the rural trade, where they depend on the crops for their income and pay their debts when they realize on these crops. In such case it may be necessary, and good business as well, to carry the debtor over several months until he gets in his own returns, when the account will be settled in full. Such debtors may perhaps be better classified as "deferred" rather than slow. They are good pay, but they pay on their own terms rather than on the terms of the concern with which they deal. Payment, though slow, is sure, and with recognition of the conditions and proper handling of the accounts, such trade is desirable and safe.

Where payment fails because of neglect on the part of the collection manager, there is but little to be said. It is the collection manager's business to work for and facilitate in every possible way the prompt payment of accounts, and if he does not do this he is not qualified for his position. If the debtor does not pay when payment is due, he should—diplomatically or otherwise, as the conditions may indicate—be asked to pay, and should be followed up thereafter till he does pay, or until it is conclusively demonstrated that he cannot be made to pay.

Others found in the slow-pay class are those who are honest, and whose intentions are perfectly good, but who, through some miscalculation, or unexpected demand, or through misfortune, or other cause, are unable to meet the payments as they mature. Such debtors require very careful treatment. The conditions should be carefully studied. Unless they are hopelessly down and out, payment is reasonably sure if the account is properly nursed. In any

such cases small payments can usually be provided for, or the collector himself may be able to suggest means whereby the debtor may meet his payments, or it may be wise to let the matter rest until the debtor has had time to pull himself together and get on his feet.

Where poor pay is simply due to bad management on the part of the debtor, the account is one that requires close attention. Money is coming in and is going out, and the debtor's failure to pay is merely a failure to make ends properly connect. In such case the collection manager who is in closest touch will fare best. He should, under such circumstances, study the conditions, and carefully suggest such method of payment as may be best both for the account and for the debtor. Usually, as in the preceding case, small payments can be provided for; or it may be possible to find out when considerable amounts of money are coming in to the debtor, and, by careful management, to secure payment of the entire account at that time.

It is not uncommon to find debtors who, while perfectly good, defer payment as a matter of profit as long as it can be done without serious injury to their credit standing. Apparently they reason that they need not pay until they have to, and that the longer they keep the money in their possession, the longer they have the use of it. Accordingly, while not deferring payment so long as to subject themselves to suit or even to unpleasantly harassing dunning, they do wait until the collection manager's patience is sorely tried. Such debtors should be brought sharply to time by a firm and courteous letter. They are using the concern's money for their own pur-

poses; and the practice is not honest and should not be permitted.

### **(3) Bad Pay**

In this class of debtors are found those who are able to pay, but who will not pay unless and until payment is forced. Among these are men who are really hard up and who defer all payments except those which press hardest. Among these are also the "high financiers," who are good for the amount, and who pay at the last moment, but who wait until this last moment actually comes, thereby gaining the use of money for weeks and perhaps months after it should have been in the hands of the concern they owe. Men of this kind differ from those of somewhat similar tendency discussed under the slow-pay class, in being entirely reckless of their credit standing. In fact, they have no credit standing; and credit should really never be extended to them. When they do secure credit it is a reflection on the astuteness and efficiency of the credit department. Their trade is not desirable on any terms except spot cash.

The professional deadbeat, who gets credit wherever he can, and who pays only when he must, is also to be included in the bad-pay class. Men of this stamp never give attention to the demands of the collection manager, are rarely accessible to the collector, or, if they are discovered by the collector or by any accident call at the store, are profuse with many promises which are as easily broken as made. Such men should never be trusted at all; but, if through some accident they do receive credit, they should be followed constantly and relentlessly with letters, personal interviews, garnishee notices, threats of

prosecution, and anything else that will bring pressure to bear upon them. The only hope is to make payment the lesser of the two evils, and this requires strenuous work on the part of the collection manager.

In such cases—and in other cases where non-payment is carried to the breaking-point of the collection manager's patience, but where suit is not yet deemed advisable—a form letter is sometimes used, written on the stationery of the concern's attorney. This is either signed by the attorney himself or—with his permission, of course—by the collection manager with the attorney's name, and calls the debtor's attention to the account and to the necessity of settling it at once in order to avoid suit. Such letters are at times effective, but should not be used too freely.

The same thing may be said of the practice of using blanks supplied by collection agencies, which purport to be sent by them, and refer the debtor back to the concern for settlement under pain of prosecution. The method is good on occasion, but is not to be used where future business is desired, or where the debtor is responsive to other means.

By relentless persecution the money can frequently be secured from the bad-pay debtor. Long before this point is reached, however, his name should have gone on the black list and have been turned over to the credit department, to prevent any further extension of credit, and indeed any further business transactions, except of the simplest and for cash. It is always dangerous to deal with a crook.

**(4) Execution Proof**

Debtors of this class have no disposition to pay their debts, and, having no property, cannot be forced to do so. The accounts coming under this head comprise the residuum from the other classes—the accounts which the credit department have so far utterly failed to collect. They are entered in the “Bad Accounts Ledger.” This is to some extent a record of the failures of the collection department, but it is also, in a sense, the graveyard of the credit department, since it is the place where the bad mistakes of the credit man are buried. With proper work in the credit department, uncollectible accounts should be rare, and in some lines of business should be practically unknown.

No matter how bad accounts may be, they are not considered absolutely uncollectible until, as already stated, they have expired by limitation, or the debtor has died without leaving any property, has passed through bankruptcy, or has permanently left the country. Bad accounts not extinguished in one of these ways, but still apparently uncollectible, are written off to the Bad Accounts Ledger, where they are kept, and looked over at intervals. Then, if at any time a debtor's conditions change so that his account becomes collectible, proper steps can be taken to secure its payment.

**Compromises**

In all his dealings the collection manager must bear in mind that most people are honest. He is dealing with men who have feelings, ambitions and aspirations as well as he, and when they evince a desire to do the fair thing he must meet them part way at least. Business



cannot be conducted entirely on Shylock principles; and to treat others fairly and even generously is not only good feeling, but good business as well. This brings us to the question of compromises.

Should a debt ever be compromised? The one aim and object of the collection manager's work is to get money for his concern. If he is convinced that it is absolutely impossible for him to get all that is due, it is his duty to get as much as he can; and to do this he must on occasion compromise an account.

Compromises as to time are very much more frequent than compromises as to amount. The ordinary slow-pay customer wants time, but, if he is given this, will pay; and he is usually too desirable a customer to drive away by harsh collection methods. In such cases it is better to study his conditions and—either before or after the purchase—agree with him on terms that he can and will meet.

Time compromises—but rarely amount compromises—are also necessary occasionally with good-pay debtors who are temporarily embarrassed, or who get into financial difficulties through circumstances beyond their control. In such cases small payments extending over a considerable period of time offer the surest and best method of securing the money due; and the collection manager should have no hesitation in making whatever arrangements are possible, even though they be somewhat out of the ordinary.

Compromises as to amount are purely a matter of judgment and conditions. If the debtor cannot pay the full amount of his debt, or if he is able, but will not, and cannot be forced to pay the full amount, the collection manager must be content with what he can get. The mat-

ter then becomes one of judgment as to the debtor's ability to pay, and of trading to get him to pay up to this full ability. With the honest debtor, *i. e.*, the man who would pay if he could, there is seldom any trouble in getting all from him that he can pay. With the tricky class—the debtor who could pay if he would, but who is execution proof—the whole matter is one of “jockeying.” Unless there is something to be gained by the debtor in settling up the account, such cases are hopeless. Sometimes, however, to escape the persistent, pestiferous and inopportune dunning of collectors and collection letters, or for the sake of effect, or for the sake of clearing the way so that he may obtain credit elsewhere, the debtor of this class is willing to pay something. It is the duty of the collection manager to make this something as material as can be forced out of the deadbeat debtor by every means in his control.

### **Advantages of Classifying Debtors**

The successful business man of the present day is he who carries routine in the various branches of his business to the “last analysis,” and a classification of debtors such as outlined in the present chapter will be found an important step in this direction. The study of the accounts receivable necessary in order to make a proper grouping gives the collection manager a close and intelligent knowledge of his accounts; and the classification, when completed, enables him to handle a much larger number than would otherwise be possible. This is so because, while there are always debtors who will require individual treatment, the larger number of delinquent accounts, if carefully and intelligently classified, can be handled ac-

ording to a fixed routine and with form letters, so that a large part of the work can be done by the manager's assistants. In such cases, the form letters employed will, of course, be individualized, *i. e.*, typewritten out in full with the parties' names and addresses, and signed with the collection manager's name, preferably in ink.

## CHAPTER IV

### COLLECTION SYSTEMS

The efficiency of the collection department depends largely upon the adoption and intelligent use of some simple, practical system of handling its routine. The essential feature of such a system is the arrangement of the work in such orderly fashion that the accounts will be automatically brought to notice at the proper time for attention, and a record be kept of each step of the collection until the final payment is made. This is accomplished by the aid of suitable filing devices, careful indexing, and the application of an efficient follow-up system. Much care should be given to the planning and installation of the collection system, for this system is the mechanism through which the efforts of the department are exerted; and, if it is well devised, it makes possible the handling of thousands of accounts where otherwise only hundreds could be attended to.

#### **Planning the System**

In arranging the details of the collection system the policy of the house must be taken into consideration. What are the usual terms? How closely are collections to be made? What leniency shall be shown to delinquents as a class? These are not matters to be settled offhand by even the best of collection managers, but are to be determined by the heads of the business, who,

having in view the welfare of each department and the best interests of the business as a whole, are in a position to decide with intelligence.

If there is a credit man, he and the collection manager should work hand in hand, and the organization of the collection department should be a matter of consultation between them. If the credits are well handled, and there is the proper co-ordination between the credit and collection departments, so that the information secured by the credit department is freely accessible to the collection manager, the work of the latter is more than half done.

When the organization and general policy of the collection department is once established, and the system under which it operates is properly worked out, the collection manager will find it possible to turn over a very large proportion of the detail work, such as posting reports, filing cards and papers, watching collections in the ordinary course, handling routine correspondence, etc., to trained assistants. It must always be remembered, however, that these very details are much more important than they seem, and that the assistants in whose hands they are placed must be careful and experienced. No amount of good judgment and cleverness on the part of the collection manager can offset an inefficient and carelessly operated system.

It may be noted in passing that a system once worked out should not be condemned too hastily, even though it does not at first come up to expectations. Give it time for a thorough test. Improvements can be introduced as defects develop, or as new or unexpected conditions arise; and the object should be to perfect the

existing system rather than to substitute some other system in its place. Not only are changes necessary to remedy defects, but they must be made to keep pace with the business as it grows. The history of every really successful business is a chronicle of constant development and of equally constant adjustment to meet the demands of growth and changing conditions. The collection department must keep pace with the rest of the business.

Without an adequate system collections are haphazard. They are not attended to at the proper time; they are not handled properly when they *are* attended to; and frequently they are overlooked entirely for weeks at a time. The natural effect of such a lack of system is to invite delinquency in payment, to make collections more difficult and more uncertain, and to increase largely the percentage of loss from uncollected debts.

It is impossible and unnecessary to present the many different collection systems in use. All are devised to the same end, and differ in detail, according to the nature of the business served, rather than in the general plan. Consequently, a system in effective operation in one collection department would, with minor modifications, serve as a system for any other collection department. The chief requisites are that the system be simple, efficient, and as inexpensive as is consistent with first-class results.

### **A Working System**

A system of keeping in touch with, and of attending to the accounts of, a business is outlined in the fol-

lowing pages. This system has proved simple and efficient in practice and can be adapted in detail so as to conform to the needs of almost any business.

(1) The preliminary work for the collection manager is done in the credit department. If the account is an important one, the standing of the purchaser will have been fully investigated, and much information that will assist the collection manager in case collection should prove difficult, is secured in advance. This information is supplied at the time the first invoice reaches him, or else is at his service when needed. With smaller accounts the credit department does not insist upon such particularity of information, and frequently will take chances that everything is all right. As a result, the smaller accounts are frequently the most troublesome the collection manager has to handle.

(2) The routine of collection begins with the sale. As goods are sold, the invoices are made out in duplicate or triplicate, the original going to the customer, and the duplicate copies being disposed of according to the general system of handling sales. One duplicate, however, always reaches the collection manager, usually by way of the office, where it is entered on the books in the regular way and its folio number placed on it for convenient reference later when checking up the account. The form of the invoice is immaterial to the collection manager, provided only that it gives the name, address, date, amount and terms. For him it is merely a memorandum of the transaction.

(3) From the office the duplicate invoice goes to the collection manager and is placed in an invoice file containing thirty-one divisions suitable for holding invoices, these

divisions being numbered to represent the days of the month. These invoice files play an important part in the collection system. If 60 days' credit is given, two of them are necessary. If 90 days' credit is given, a third is required. More will be found useful if still longer datings are common.

The invoice file is found in various forms. At times it is merely a cabinet with thirty-one drawers in it, these drawers being numbered to correspond with the days of the month. Another form is somewhat similar to that of the ordinary card file, but large enough to accommodate the invoices behind thirty-one guide cards, which bear numbers corresponding to those of the days of the month. This form has the advantage of accommodating a large number of invoices in very small space. Another form sometimes employed is practically the same as that of the vertical letter file, this, however, being of smaller size and the invoices being contained in jackets with numbered tabs. A very simple impromptu file for a small business may be readily made by means of large manila envelopes numbered to correspond to the days of the month, and kept in numerical order in a desk drawer.

It is hardly necessary to say that the form of file is of but little moment. Any of those in use will serve the purpose if they are properly kept up and properly attended to. The file is an important and labor-saving device; but without proper attention its value is lost.

At the beginning of the year, file 1 contains the invoices maturing in January, each under its proper due date. File 2 contains the invoices which fall due in February, and file 3, if a third is used, the invoices for March. The method of using these files is as follows:



A bill of goods is sold—say on the 15th of January, and on 30 days' time. In this case the goods should be paid for on the 14th or 15th of February, according to the custom of the house. The invoice is therefore placed in the February file under the proper date, and requires no more attention until that date is reached. If the invoice calls for 60 days' time, it is placed in the March file under the proper due date. If, however, the invoice carries 90 days' time, it is placed in the January file under the 14th or 15th. This file then contains both January and April items. There is, however, no conflict. The 90-day item—due in April—comes into the January file, it is true; but it takes the place of January items which have already been taken out of the file for attention. There is therefore no mixing of items, the April items closely following the January items as these latter are removed. At the end of the month all the January invoices have disappeared from the January file; and it is then devoted entirely to April business and becomes the April file. In like manner the February file accommodates the May items, and the March file the June items, and in this way the files are used continuously without interference between the incoming and outgoing items.

(4) On the back of each invoice the terms of sale are stamped and the due date of the invoice is entered. A rubber stamp is used for this purpose, the due date and any special terms of sale being filled in with pen or pencil. Each day the file automatically indicates the invoices which are due on that day. These invoices are then taken out and compared with the ledger to ascertain the status of the account; and if they are not already paid, the attention of the debtor is called to the fact that pay-

ment is due. The notice sent out is usually a simple statement of the account, stamped perhaps with the statement that the account is payable, or with a request that remittance be made by return mail. In case of city collections the invoice memorandum is sometimes placed in the collector's hands at once, for personal presentation.

The collection manager has entire charge of the accounts after the invoice is placed in his hands. He supervises the sending out of statements and directs the treatment of the accounts thereafter, all, of course, being done in accordance with the policy and understood customs of the house. Where monthly statements are the rule, these usually go out without special reference to the collection manager, as it is purely a routine of collection and does not require his O K. After the statement goes out, he may turn over certain accounts to his assistants, or to the bookkeeper or cashier, to follow out a prescribed routine, which then goes on with but casual supervision on his part. Even these accounts, however, if any unexpected turn of events takes place, or the conditions are such as to require special attention, are at once taken over by the collection manager.

It should be needless to say that statements or notices to debtors should be sent out the day accounts are due. The whole collection system depends for its effectiveness upon prompt action at the proper time, and if notices are not sent out on the indicated dates, or such other action taken as may be necessary, the system is thrown "out of joint"; a bad impression is produced upon the debtor; and the whole effect is demoralizing.

(5) When the notice that payment is due has been sent out, the invoice is returned to the invoice file five days

ahead of its former position, or even further if the debtor lives at a distance or if the system calls for a longer time. The date of the invoice will usually be sufficient to distinguish it from the invoices which come due on the date to which the unpaid invoice is advanced. If, however, the collection manager so desires, a more definite indication of the overdue invoices may be secured by means of a subdivision of the compartment, by a colored separating sheet, by stamping the invoice "Overdue," or by pinning to it a colored tag plainly printed or stamped "Overdue."

If at the end of the five days the account is still unpaid, it is regarded as delinquent, and the invoice is removed from the filing cabinet and placed in an ordinary vertical file under alphabetical arrangement. A letter is then written to the debtor calling attention to the fact that his account is overdue, and a carbon copy of this letter is attached to the invoice.

(6) It is to be remembered that the invoice is now no longer filed by date, but alphabetically, together with any letters or other material relating to it. Thus the invoice itself no longer serves as an automatic reminder of the account and its condition, though it is still at hand where it can be readily referred to at any time. To supply a date memorandum of the account that will automatically bring it to attention, a card is made out and filed in another vertical filing case, sometimes called the "tickler," which, like the larger filing cabinets, is divided into thirty-one compartments, each representing a day of the month. In this filing case the collection card is filed ahead to the next date on which the account requires attention, the time varying according to the system. It

then serves as a reminder and a concise record of the account, and is filed ahead from time to time until the account is finally paid. When this consummation is reached, the card is removed from the tickler and destroyed, the invoice itself is taken from the alphabetical file and placed in the general office files, and the transaction is closed.

A form commonly used for the collection card is as follows:

Folio.....Terms.....Due.....Date.....	
Name.....	
Address.....	
PROCEDURE	RESPONSES
.....	.....
.....	.....
.....	.....
.....	.....

The handling of accounts after they have been placed in the tickler file requires the use of statements, notices, letters, drafts, forwarding of the account to attorneys or collection agencies, and various other accessory acts and instruments in order to secure final settlement. These very important matters all go to make up the collection system, and will be found treated separately in their proper places. A careful record should be kept of all that is done. This record may be kept on the collection card; or a loose-leaf ledger will be found convenient and practical.

**Statement of Accounts**

Under the system outlined, each invoice is treated as a separate transaction, even though the same customer may have two or more invoices "in process" at the same time. If, however, two or more bills of goods have been purchased during the month, and a single statement covering all these purchases is sent out on the first of the month following—as is usually the case—no material modification of the system is necessary. In such case the individual invoices are not sent to the collection department; but on the first of the month there is sent to the collection manager a statement of the customer's account, covering all his purchases for the previous month, with perhaps the separate invoices attached; and this statement is handled in the same manner as the individual invoice. This plan obviously saves much time in handling.

A combination of the two methods is easily possible. Transient customers can be handled under the separate invoice method; while customers who usually purchase more than one bill of goods in a month can be handled under the statement method.

**Branch Houses**

If a house operates branches, each branch will employ the same system as the head office, but a ledger account for each customer will be kept at the head office as well as at the branch. The branch house should send in weekly reports of its sales, and also of its collections, which are to be entered in the ledgers devoted to the records of the branch. It is then the duty of the collection manager to see that the branches keep their collections up to date. This must, of course, be done by correspondence.

## CHAPTER V

### COLLECTION SYSTEM FOR INSTALMENT BUSINESS

The instalment system of selling goods has made rapid strides in the last decade. Not many years ago the plan was looked upon as impracticable, but at the present time instalment houses are scattered over the entire country, and sell nearly all lines of merchandise. The whole system is merely a method of extending credit to the customer on the basis of a stated payment each week, month or quarter, as the case may be.

The method is simple; and the results, when the instalment sales are properly handled, are entirely satisfactory. Payments should be properly secured or safeguarded and collections should be close and clean. The dealer can then estimate with accuracy just what he will receive each month, and will therefore know just what is available for the purposes of the business. This, of course, presupposes that his collections are properly kept up, and payments made according to the terms specified in the lease or contract.

#### **Contract of Conditional Sale**

The usual lease or contract signed by a purchaser under the instalment or conditional sale plan, leaves the title in the vendor until the full purchase price is paid. These contracts are in the shape of a promissory note—regularly drawn and bearing interest—with the condi-

tions annexed. A form of lease much used by instalment houses is given below:

\$.....

191..

STAR FURNITURE HOUSE

For value received, I promise to pay to the order of Star Furniture House, 2346 Wood Avenue, Chicago, Illinois.....Dollars, as follows:.....

..... balance in.....instalments of.....Dollars each, commencing.....191.., with interest at 6 per cent, payable annually. Furniture purchased..... to be kept at my.....

..... And it is further agreed that I will keep the said described furniture insured for benefit of the Star Furniture House, as their interest shall appear, and that said furniture shall not be removed from my residence without their written consent; that the title to same shall remain in the said Star Furniture House and subject to their control until same is paid for in full; that the said Star Furniture House shall have the right to take said furniture, if at any time default shall be made in the payments, or they shall feel themselves insecure, and the amount paid shall be considered liquidated damages, and will be thereby forfeited.

In case of default in payment, the said Star Furniture House may at its option take such property as afore provided or enforce the payment of this note.

In case any of the above described articles shall prove defective, the Star Furniture House shall have the right to replace the same.

Signed.....

**Nature of Instalment Business**

So-called sales on the instalment plan are not, strictly speaking, sales, until enough has been paid in to render it reasonably sure that the purchaser will pay out on his contract. The necessity for a skilled and experienced collector to follow up payments is obvious. The responsibility of doing this falls properly upon the collection manager; and all of his skill, judgment and tact will be

needed. He will usually have the fullest opportunity for the exercise of his abilities, as in the instalment business the collection manager reigns supreme in his department.

To carry on a business successfully under the instalment plan usually requires considerable capital, as the investment in the outstanding goods is heavy. To obviate this, the contracts themselves are sometimes used as collateral security for loans. Even then it is but little less imperative to collect closely, so as to get in the money as it falls due. Not only is it bad business to borrow money when outstanding payments are overdue, and not made for lack of proper attention, but the risk of letting accounts run is serious. Every day that an instalment payment goes over its due date renders it just so much more difficult to collect.

### **The Collection Card**

The general principles involved in making collections are the same in any line of business, instalment or otherwise. The prudent business man makes himself as secure as possible, and the only advantage the instalment vendor has is the greater security for his credits. Against this must be balanced the large number of small payments involved, and the long time necessary for the account to be paid out. Also, the character of the trade is such as to call for the closest watching and the promptest and most persistent follow-up. The collection system described in the foregoing pages can be admirably adapted to the instalment business. In such case the duplicate invoice is not necessarily turned over to the collection manager, but he is supplied with a collection card. This is used in several forms, but whatever the form it should always



contain the information appearing on the illustrative card which follows:

Folio.....	.....191..
Name.....	
Address.....	
Purchases.....	
.....	
Terms.....	
Amount.....Interest.....	
Salesman.....	
CREDITS	
.....	
.....	
.....	
.....	
.....	

### Handling the Accounts

The general system described in the preceding chapter is modified for the instalment business as follows:

(1) The collection manager's card is filed in a filing case or cabinet—similar to those used for the filing of invoices—under the date on which the first payment falls due, or, if the notice is to be mailed so as to reach the customer at, or in advance of, the due date, the card is filed under the proper advance date. When this date arrives, a first notice is sent, and the card is filed ahead six days. If at the end of this time payment has not been

made, a second notice is sent, and the card is carried ahead six days more. If the payment is still in default at the expiration of this time, a third notice is mailed, and the card is either filed under the date on or before which an answer should be received, or is held in a waiting file until sufficient time for an answer has elapsed.

(2) If the third notice does not bring the payment or a response of any kind, a personal letter is written to the delinquent, and his card is filed in a past-due card file or cabinet. This is of the same construction as the other file. If a reply to the personal letter is not received in a stated time, a collector is sent to interview the debtor personally and find out exactly why payment has been delayed. If the delinquent is out of town, or remote, so that a personal visit is impossible, the matter is one for further correspondence. The subject of notices, letters, etc., for the instalment business will be found treated in detail in Chapter XII, "Collection Letters for Instalment Accounts."

### **Suggestions for the Instalment Collector**

It is particularly important that the first payments be collected promptly and in strict accordance with the contract. It is a matter of experience that more sales are lost, *i. e.*, goods have to be taken back, through failures to get the purchaser started right on his payments, than by too close collecting.

It may be noted that when an instalment sale is made, it is well for the salesman to impress upon the buyer that payments must be made at the place of business, and that collectors are sent out only on special request. If the customers are properly educated from the start they will,

in most cases, make their payments at the store, thereby lightening the labor of the collection department by just that much.

If it is found necessary to extend the time for a payment, it is usually wise to do it with an appearance of extreme reluctance, so that the customer will consider it a great favor. If this is done, he will not be nearly so ready to ask for or expect further extensions.

Frequently the instalment buyer is purchasing goods from several houses at the same time and has payments to make to all of them. In such cases, if the burden becomes heavy for him, it is "first come, first served," the purchaser paying the most urgent demands and "standing off" the house that is lenient. It is always important to impress upon the customer the fact that the goods have been sold him on very easy terms and that he must therefore live up to his agreement, but when he evinces a disposition to favor other houses there should be a strict insistence on payment according to the terms of the contract.

The instalment buyer usually receives his wages each week or month, and it is therefore very necessary to find out just when his pay-day occurs, so that a letter can be written or a collector be sent to see him at that time. It must also be borne in mind that the instalment customer seldom has resources on which the vendor can realize. Payment must be made out of his weekly or monthly earnings, and it is extremely difficult for him to make back payments if he is allowed to get in arrears. This is an additional reason why collections should be close; but when this unhappy condition does arise it is sometimes possible to get the delinquent to increase his regular pay-

ment each period by at least a small amount, and thus bring his account up to date. This is frequently done informally; but it will at times be found more effective if the customer signs a special agreement to make larger monthly payments, this agreement stating specifically that it does not change the conditions of the original contract. The debtor is much more likely to live up to a written promise of the kind than to any informal arrangement for such increased payments. A good form for such use is as follows:

#### AGREEMENT

I hereby agree to pay the Chicago Furniture House five dollars on the 12th day of each month hereafter, until the interest on all payments now due, and the said payments now due on a certain dining-room table, purchased by me from said house under a contract of sale dated March 1, 1913, have been paid in full, together with all regular payments accruing under said contract meanwhile, and, provided said payments are made as herein agreed, the Chicago Furniture House is to accept same and to apply them as herein provided. It is specially understood and agreed that this present undertaking does not affect the conditions of the original contract of March 1, 1913, in any way.

(Signed) JOHN H. McCULLOUGH.

Urbana, Illinois, April 15, 1913.

#### **Special Requirements of Instalment Collections**

The instalment plan appeals with special force to the improvident, and there is no doubt that the instalment buyer frequently purchases far beyond his means. It is for him an easy means of discounting the future. This is one of the bad features of the system. An article that can be bought for eight dollars down and eight dollars per month for three or four months, appears to many purchasers as merely an outlay of eight dollars; and they

fail to consider whether they will be able to make this payment month after month as it falls due.

For this reason, and because of the general nature of the business, instalment accounts must be followed with tireless energy. This is the great secret of success with the instalment business. No matter how regular the payments, the collection manager must not be lulled into a condition of assurance and neglect. No delay, be it even for a few days, must pass unnoticed. A debtor may be good pay for several months, and then, through loss of interest in the purchase, or loss of position, or through some unexpected call upon his resources, or perhaps through injudicious purchases, become very poor pay.

The work of collecting instalment payments is an unsatisfactory one in some ways, and a collector always will have bad accounts. These should, however, be reduced to a minimum, and for the encouragement of the instalment collector it may be said that a man who thoroughly understands and is successful at this work is in much demand, and under any ordinary conditions need never be out of profitable employment.

## **CHAPTER VI**

### **COLLECTING CITY ACCOUNTS**

#### **Location of Accounts**

Accounts may be roughly divided into city accounts and out-of-town or outside accounts. City accounts as here considered are those located in the same city or town as the office of the concern to which the accounts are due. The general methods of collection are the same for both classes of accounts, but in some particulars they require different treatment. The present chapter will therefore consider the collection of city accounts, leaving out-of-town accounts for another chapter.

#### **Monthly Statements**

It is the almost invariable custom in the mercantile world to send a statement to the customer on the first of the month following the purchase of goods, and to list on this statement the goods purchased during the month, with the terms on which these goods were sold. As it is a custom to send out these statements, they do not have the effect of "duns," but are looked upon as merely memoranda of goods which have been purchased by, or charged against, the customers.

These statements give the customer the record of his purchases as they appear upon the books of the house. If, then, there is any error or misunderstanding on either side as to the goods purchased or the prices charged, such

differences are discovered and can be adjusted at this point; and the matter being fresh in the minds of all those concerned, this can usually be done without arousing any ill-will on the part of the customer—something very desirable in this age of competition.

It is a frequent practice, and a practice to be commended in certain lines of business, to include with the statement a letter to the customer, or perhaps printed matter, calling attention to some special sale, or to a line of goods in which the customer might be particularly interested. This not only advertises the goods, but also conveys the impression that the dealer's interest does not end when he gets the customer's money—that he desires a continuance of the customer's patronage.

### **The First Statement**

Unless there is some reason to the contrary, the statement of account is sent out on the first day of the month following the month of purchase. We will suppose that this gives the terms of the house as cash, which usually means that payment is due and expected within a reasonable time after the first of the month. Even though this is the case, some houses do not send out another statement until the first of the following month, particularly where the customers are so thoroughly good that there is no uneasiness as to the eventual payment.

It is here to be noted that the particular trade and the character and standing of the debtor, will influence the method by which an account is handled. In almost every trade there are special customs as to time, terms, payment, etc., which control; and the collector must be familiar with these before he is qualified to conduct his

department intelligently. Also, in many cases, houses of known standing and reliability have their own pay-day on which their accounts are paid, and with these houses payment cannot be secured sooner without giving offense. In such cases it practically amounts to the purchaser fixing his own terms; but usually these terms are not far different from those of the house from which the purchase is made; and, the purchaser's trade being desirable, the selling house is willing to meet the purchaser's requirements as to terms. In such case a statement is sent on the first of the month, but no further attention is paid the account until the purchaser's pay-day comes round. If payment should not be made on this regular pay-day, the account will then require prompt attention, the delay indicating some oversight or other irregularity, or possibly a change of condition in the purchasing house.

Leaving out of consideration any special customs or cases, we will suppose that systematic and fairly close collections are the rule. In such case, at the time the first statement is sent out, a duplicate statement is put in the collection file ten days ahead, and this fixes the date when the account is to be followed up if it is not previously paid.

### **The Second Statement**

On or shortly after receipt of the first statement many customers will call and pay their accounts, or will send in remittances in settlement. When payment is thus made, the customer's duplicate statement is removed from the collection file; and as far as the collection manager is concerned, the transaction is closed. To those who do not pay up on or before the expiration of the ten-day



period, a second statement is sent out. The fact that a second statement has been sent out, and the date on which it was sent, are noted on each of the duplicate statements, which are then once more filed ten days ahead. The second statement is not itemized, but gives merely the amount "As per statement rendered," this referring to the itemized first statement.

### **The Third Statement**

The second statement serves as a reminder to the customer, and will usually bring in many remittances. To those who are still delinquent a third statement is mailed on the 20th of the month, and the facts are noted on the duplicate statement, which is then carried forward to the 30th in the collection file.

At the end of this third period the large majority of the accounts will have been paid, if credits were wisely granted. It usually happens, however, that a few accounts at least are found on which nothing has been paid, and which are still being carried thirty days after the due date, although no extension was granted.

Up to this point the customer has had no possible reason for taking offense, as nothing has been sent him but a bald statement of his account—merely enough to keep before him its condition. Something more strenuous is, however, clearly necessary with the accounts still unpaid, and the customer's duplicate invoice is taken from the regular files, placed in the past-due file, and a systematic and persistent follow-up is begun.

### **Nature of the Follow-Up**

At this point some houses put the accounts in the hands of their collectors for personal attention. Indeed,

some few houses still follow the practice, which used to obtain quite generally, of placing the account in the hands of their collectors as soon as the first statement has been sent out, or, in some cases, send out the first statement by their collectors. The practice is, however, nearly obsolete, and as a rule is neither economical nor advisable. The business man of the present day is accustomed to receive his statements and remit in payment by mail, and, as long as he pays up promptly, is inclined to resent personal collections.

Where collection can be made by letter, the greater economy of this method is obvious. The letter—usually a form letter, even though written to the individual, and signed—costs but a few cents to prepare and deliver to the recipient. A collection in person, on the other hand, requires the time of a collector, and in most cases car-fare, and, save in the case of near-at-hand accounts, the expense is material. Nor are the results produced such as to justify the extra cost. Indeed, in many cases better results are produced by the use of letters.

### **Follow-Up Letters**

The nature and number of the letters sent to delinquent debtors will be governed by the character of the business and the condition of the particular account. Form letters are sometimes used for this purpose, with blank spaces left for the insertion of name, amount due, and any other special data. Where, however, an account is material in amount, or the customer is a regular or important one, it is much better to have each letter written out on the typewriter, even though the wording is taken from form letters, and to sign it either with the name of

the collection manager or with the name of the concern. When this is done the letter becomes in fact a personal letter, and it will receive far more consideration than would be accorded to a form letter, no matter how excellent.

Suggestions and forms for follow-up letters will be found in Chapters IX to XIV of the present volume. The number used in a series is seldom less than three or more than five. To send a greater number would seem to be worse than useless, as any debtor who can receive five logical, adequate, well-adapted, dunning letters, and not pay up in whole or in part, or make an adjustment of his account, or give an indication of financial vitality in some other way, will require something more forceful than letter-writing, if his account is to be collected.

### **Operation of the Follow-Up**

When the time for an active follow-up is reached, three statements have already been sent the delinquent debtor; his account is, nominally at least, thirty days overdue; and the first of the month has been reached. On this day the first letter is sent him, and if the follow-up is to be close, this is followed up on the 5th, 10th, 15th, and—if five letters are sent—20th of the month; or, in other words, the letters go out five days apart. The matter is then allowed to rest until the first of the following month. The debtor has now been given sixty days from the date of sending the first statement, and if neither payment nor any word of explanation has been received, the statement should be given to a collector, with instructions to see the debtor and bring personal pressure to bear. The number of delinquents for the collector to look after

will usually be small, as the statements, together with the follow-up letters, are effective with all but the most difficult cases.

The work of the collector is considered more fully in Chapter xv, "The Collector and His Work." For present purposes it is sufficient to say that he must use every effort to see the delinquent customer, and, by direct request, argument, persuasion, and any other lawful methods, try to secure payment. If the customer succeeds in eluding the collector, or the conditions are such that the collector cannot see him, a special delivery or registered letter will sometimes impress him with the importance of settling up or explaining why he cannot settle up, or, better still, induce him to call at the store and thus give an opportunity for a personal interview.

### **The Personal Interview**

If the debtor can be induced to call at the store, the collection manager has him on his own ground, and, before he gets away, should be able to make some adjustment of his account. It is obvious that the debtor has some income at least, that this will be spent, and that someone is going to get it; and the question is whether that someone will be the collection manager. He should keep firmly in mind the fact that the money is due—that the debtor is unjustly keeping it from the house; and he should not allow the debtor to take an injured air or in any other way place him at a disadvantage. The collection manager has a strong advantage in his surroundings and the conditions, and he should make the most of it.

In any such case the debtor is almost sure to start out

with the usual hard-luck story, which may or may not be true. No matter whether it is true or not, the collection manager should take an interest in it, and let the debtor feel that he is sympathetic and disposed to be friendly. This will frequently lead the debtor to tell more than he had originally intended, and will thus give a better idea of the actual conditions, and show whether these really stand in the way of payment.

It is usually good policy to make no offers of compromise or adjustment, but take it for granted that the debtor will pay the full amount. There is a moral effect in this, for the debtor, feeling that the entire amount is expected, will frequently of his own accord suggest payment of a part. In such case he should be allowed to state just what he can do, and then such action should be taken as the conditions seem to indicate.

### **Instalment Payments**

In instalment work the amount of the debt and the character of the debtor will necessarily influence the manner in which the account is handled. When an instalment debtor pays no attention to notices and letters, it is usually found that he is possessed of but little property, if any. As a rule such a debtor has no intention of defrauding the house he is dealing with, but finds it inconvenient, difficult, or at times impossible, to pay. Tact and judgment are necessary to realize on such an account; and it is usually a question of working the amount out.

Frequently—and particularly in the case of wage-earners—it may be wise to arrange for very small weekly or monthly instalments. Let the exact amount to be paid in each instalment be clearly understood, as also the exact

date on which these payments are to be made. If the amount of the instalments suggested by the customer seems smaller than he should make under the circumstances, the importance of larger payments should be urged upon him—payments which will relieve him of the liability more promptly and also give the instalment house its money sooner. Once an agreement is reached, let the debtor feel that it is really an agreement, and that the collection manager not only expects him to live up to it, but has implicit confidence that he will. Impress upon him the advisability of calling at once if any unforeseen reason comes up that might possibly prevent him from meeting any of the payments exactly as arranged.

#### **Keeping in Touch with Delinquents**

Another point to be impressed upon the instalment debtor at this stage is the importance of keeping the house fully informed of his exact address, street and number, as much valuable time is lost in tracing debtors who have moved and—though with no intention of evading payment—have failed to send their new address. It is a good plan to stamp on receipts, letters or other communications sent to instalment purchasers the following notice:

#### **IMPORTANT!**

Please do not move without  
notifying us of your new address.

This suggestion may seem simple, but in practice it will be found a great aid in keeping in touch with small debtors of the "moving" class.

The collection manager's desk should be in close

proximity to the cashier's window, so that he can see customers who call to make payments or for other purposes, and talk to them when he deems it necessary. If customers who call do not pay according to agreement, the cashier should acquaint the collection manager with the fact at the time, so that he can take the matter up at once with the debtor. This should be done in an unobtrusive manner that cannot give offense to the debtor; as, for instance, if a payment is not in accordance with the agreement, the cashier might quietly inquire of the collection manager if he had changed the conditions of Mr. So-and-So's payments, or if such a payment were correct. This is in accordance with the general principle that the debtor should never be unnecessarily antagonized or his feelings be hurt more than is necessary to insure collection. There are times when the "big stick" must be used in collecting, but it should not be used except when it is obviously necessary for the collection of the debt.

## CHAPTER VII

### COLLECTING OUTSIDE ACCOUNTS

#### **Nature of Outside Accounts**

Outside accounts are those not located in the same city or town as the collecting office. They must for the most part be collected by letter, as the expense of personal collection is—for the smaller accounts at least—prohibitive. Even with accounts of large size, the expense of personal collection is a very serious burden, and the mails are usually relied upon for their collection.

While the accounts of the usual retail concerns are mainly city accounts, the accounts of wholesale houses, manufacturing concerns, mail-order houses, and similar concerns are mainly out-of-town accounts. The methods pursued in collecting outside accounts are much the same in the various lines of business, varying only in detail.

#### **Discounts as an Aid to Collection**

The question of discounts is involved in both city and outside accounts. Outside accounts are, however, usually larger in amount than the ordinary retail city accounts, and for this reason the matter of discounts is more important.

The time allowed for the payment of accounts varies widely. The most common terms are 30, 60 and 90 days. Especially in manufacturing businesses, a discount is given for payment before the net due date; and this discount



is usually sufficient to be a real inducement. For instance, in some lines a 90-day net payment is allowed, with a discount of 2 per cent for payment at 30 days, or 1 per cent for payment at 60 days, or an additional discount if payment is anticipated in 10 days. In other words, if, instead of waiting until the expiration of the 90-day period allowed him, the purchaser pays at the end of 30 days, he is allowed to deduct 2 per cent from the face of his bill. This is, in effect, paying him a little over 1 per cent per month for his money. In some cases the discount runs even higher; and, as the usual rate of interest on bank loans is 6 per cent per annum, it is obvious that such a discount is a very material concession. As a matter of fact, good business men expect to take advantage of all such trade discounts, even if they have to borrow the money to do so; and the failure to take all such discounts and anticipations is looked upon as an indication of weakness. In this way the discount becomes a powerful inducement for prompt payment of accounts. Frequently the discount privilege is abused by customers making deductions after expiration of the discount period. This should not be allowed. The discount is not a concession to trade, but a premium paid for the use of that money for a certain definite time, and the terms should be strictly maintained.

In some cases, where it is desirable to hasten payment of an account, a little pressure may be brought to bear without giving offense, by suggesting that the purchaser must have overlooked the fact that the account was subject to discount, or he would surely avail himself of it. Such a suggestion comes with the appearance of solicitude for the concern which owes the account. If properly

made, it cannot give offense, and frequently brings the desired payment.

### **Prepayment of Accounts**

The ordinary discounts which obtain in any particular line of business are extended to customers as a matter of course. Occasionally special discounts are offered for prepayment of accounts. Speaking generally, such offers are "bad business." They indicate either that the house which makes the offer is very hard pushed for money and cannot borrow it in the usual way and at the usual rate, or else that for some reason it is specially anxious to close out the particular account. It is inadvisable to produce either of these impressions if it can be avoided. A house might, of course, be in such financial condition that a concession of the kind would be justifiable for the sake of securing ready cash. Or the collection manager may see that a concern now able to pay is being conducted in such a way or is encountering such conditions that it might not be able to pay at the time the account falls due, and therefore deem an extra discount, even though it were heavy, a small price to pay for the collection. Under such circumstances the concession must be made regardless of the impression produced.

### **Interest on Accounts**

Interest at times enters into collection calculations. All open accounts bear interest from the date they fall due until paid, and some customers, even though they do not take their discounts, will pay on or near the due date in order to avoid payment of interest.

In those cases where discount for prepayment is not

allowed, the purchaser naturally does not care to pay the account until its due date. If he pays promptly on the due date, well and good, but, if he does not, it may be advisable for the collection manager to call his attention to the fact that interest is running against him on the overdue account, and suggest that a prompt remittance of the amount will be accepted in full settlement, thus saving the purchaser from accrued interest.

### **Collection Procedure**

The method of keeping track of outside accounts is very like that already described for city collections. When goods are shipped, an invoice is made out and sent to the purchaser as a matter of course. The duplicate of the invoice, as stated in the previous chapter, is made out at the same time, and comes, usually by way of the office—where the proper accounting entries are made—to the collection manager, who files it in his collection cabinet on the proper due date, *i. e.*, 30, 60 or 90 days ahead, as the case may be. When the next due date comes round, if the account has not already been discounted, a statement is mailed to the customer, and this statement is followed—as described in Chapter IV—by two other statements at intervals of ten days each, or at less frequent intervals if the account is not to be followed so closely.

When the third statement has been sent out without producing any result, the account is placed in the past-due file. At this point the method of handling the account varies somewhat from that pursued in the case of city accounts. This is mainly due to the difference in the character of the account, though also in part to the difference in location. Personal visits from a collector are

usually difficult, if not impossible; also the amounts are, as a rule, larger, and the concerns owing them more responsible than in the case of city accounts. Also, the fact that they are out of town renders another collection process available which is not usually employed in the collection of city accounts. This is the draft.

### **Follow-Up Letters**

The collection letter is the collection manager's main reliance for out-of-town accounts. The tenor of these letters, their number, and the interval between them, will all depend upon the custom of the house and upon the nature of the account. Collection letters of this nature will be found discussed at length in Chapters IX to XI of the present volume.

As already stated, in out-of-town collections the draft is available—an agency not usually employed in city collections. The draft may precede, follow, or come in connection with the follow-up letters, as the practice of the house or the conditions of the particular account may dictate.

### **Drafts**

Drafts are a great aid to collections. They are, as a matter of fact, but little more than a presentation of the account by means of a collector, but this collector is a bank; and this gives the presentation a formality, a publicity and a weight, that makes it very effective. There is no real reason why payment of a draft presented by a bank should not be refused with the same readiness as a statement in the hands of an ordinary bill collector. As a matter of fact, however, the debtor does in most cases

feel an injury to his credit in refusing to pay a formal draft duly presented through a bank, which he does not feel when he refuses a collector's request for payment.

Speaking generally, drafts should not be drawn without first notifying the debtor, as otherwise the draft is not so likely to be paid, and there is a strong probability of giving offense. When, therefore, a draft is to be drawn, the collection manager should write a letter, in such tenor as the circumstances may require, calling attention to the condition of the account and notifying the debtor that he will be drawn upon if the amount is not paid within, say, the next five days. Ample time should always be given for the letter to reach its destination, and for its reply to come back. If, at the end of the specified period, payment is not forthcoming, nor yet any satisfactory explanation of the delay, a draft is drawn and deposited for collection.

When the amount is small such drafts are usually made payable at sight. Where the amount involved is larger, it may be wise to give a few days of grace, making the draft payable at from one to five days' sight, according to the circumstances. It is better, where possible, to have the draft come through a bank other than that at which the debtor transacts his own business; for the moral effect is greater, and the "strange" bank is not so likely to favor the debtor by holding the draft unduly. Occasionally a bank friendly to the debtor will hold a draft sent to it for collection for several weeks, or until the sender of the draft has it traced.

The collection manager's draft is usually deposited for collection in the bank with which his concern does its business. A slip should be pinned to the draft, con-

taining any instructions that may be necessary for the bank. If the bank with which the debtor does business is known, the collection manager can ask to have the draft sent to some other bank in the town in which the debtor resides. Where many drafts are drawn, it is quite customary to send to the bank with them some small fee to cover collection charges—usually ten cents for each draft; and this payment undoubtedly does secure better attention to the draft, and in the long run probably more than justifies the expense. The matter is, however, optional with the collection manager, as the banks make no charge for collection of drafts.

The fact that a draft has been drawn and deposited in the bank for collection does not lift any responsibility for the account from the shoulders of the collection manager. He must still watch it as closely as ever until the draft is paid. For this purpose his invoice should be placed ahead in the collection file such number of days as he thinks the draft should require to reach its destination, be presented, and the funds or a report be returned. If at the expiration of that time no report has been received, he may either place the invoice ahead a few days, so as to give the bank a little additional time, or, if he thinks best, call on it for a report as to the whereabouts and condition of the collection.

Banks as a rule do not make any extended effort to collect a draft. When it comes in they give it to a messenger for presentation, or in many cases merely mail the debtor notice, stating that the draft has been received, and requesting him to call and pay it. When the draft goes out by messenger he presents it for payment and leaves it, if it is paid, but otherwise brings it back to the

bank, leaving notice at the office of the debtor for him to call at the bank and make payment. In either case the draft, if a "no protest" draft, is held over a day or two—or, as suggested, much longer at times—and then, if not paid, is returned to the party who sent it, with the briefest possible report, as "No attention," "No reply," "Not found," or such other statement as the circumstances require. If the draft is to be protested—as will be done unless it is marked "No protest," or instructions have been given that it is not to be protested—the formal protest follows its non-payment, and this adds protest fees to the expense of handling the collection until and unless these can be recovered later from the debtor. If the draft is paid, the collecting bank sends the funds to the bank from which it received the draft; the collection manager's concern is notified that payment has been made; and the matter is closed.

### **A Second Draft**

Sometimes, when a draft has been drawn and returned unpaid, it is found effective to draw a second draft. In such case a letter is written the debtor informing him that the draft drawn on him the — instant has been returned unpaid; that the collection manager feels sure that this could not have occurred with his knowledge; and that he is therefore asking his bank to return the draft. This letter may be elaborated as far as is advisable, enlarging on the injury to the debtor's credit of refusing a draft, and the collection manager's confidence in his ability and willingness to pay this one when it again comes in.

This second draft coming so closely on the heels of

the first, and preceded by a diplomatic and forceful letter, does bring a certain pressure to bear on the debtor, and is on occasion worth while.

### **Express Collections**

It is perhaps not generally known that the express companies undertake out-of-town collections. When this method is to be employed, an itemized statement of the account is made up on a regular bill-head, a draft is attached, and this is turned over to the local express agent to be forwarded. Or, if the collection is in the form of a note, this note is attached to the statement of account in place of the draft. The express company then takes charge of the whole matter, presents the account and draft, and, if payment is made, remits the amount, less its charges for collection. The express companies are, of course, entirely reliable; and—as in the case of a bank draft—the publicity and formality of the manner of presentation is frequently effectual when other means fail.

### **Free Drafts**

Another variation of the ordinary bank draft is the “free draft” system operated by many collection agencies. Under this plan the agencies supply the collection manager with a book of draft blanks ready to be made out. On the back of each draft are printed instructions notifying the bank which presents the draft to return it to the agency—not to the sender—if the collection fails. If, then, the draft is not paid, instead of coming back to the collection manager, it goes into the hands of the collection agency and gives it authority to take the collection and the account into its own hands. The whole system



is, of course, a scheme of the collection agency to get business; but the plan is sometimes more effective than the ordinary draft, as it carries on the instrument itself notice that the account will go into the hands of a collection agency if it is not paid.

### **Salesmen as Collectors**

If neither letters nor drafts bring payment of a delinquent account, it requires special treatment. If its amount is material and its location not too far distant, it may be profitable to send a collector to see what personal influence can accomplish. If the distance is too great for this, the salesman who covers that particular territory can sometimes handle the matter to advantage. Salesmen should not, however, as a rule, be called upon to collect accounts. Selling and collecting are to a considerable extent incompatible. No matter how disagreeable the collection manager may find it necessary to make himself, the salesman is not personally involved, and on a subsequent trip he should be able, by tact and diplomacy—by deploring the rudeness and overbearing manner of the collection manager, and by judicious soothing of the customer's wounded feelings—to smooth the matter over, and, if he is a real salesman, start another account for the collection manager to wrestle with later. If, however, a salesman must first sell his bill of goods and then turn round and force payment for them, with all the insistence, the inflexibility, and even the "bullying" that is sometimes required of a collector, he is thereafter *persona non grata* to that particular customer, and can rarely sell him goods again.

**Collection Attorneys and Agencies**

When all else fails, the account, if of sufficient amount to justify the measure, must be placed in the hands of an attorney or collection agency for attention. Under such circumstances it is, of course, very desirable that a reputable lawyer or agency be retained. It is not difficult to secure such a representative in any part of the country. Directories of attorneys are published in which the names of those who make a specialty of collection business and who are reliable are indicated. Also, many of the collection agencies are represented by attorneys in every part of the country; and collections referred to these agencies are placed in the hands of their special attorneys. The agency makes itself responsible for the reliability—and to a certain extent for the ability—of the selected attorneys.

The fees charged by collection attorneys are usually 10 per cent of the amount collected on small or moderate accounts, with a minimum fee of \$3. On larger accounts the percentage charged decreases as the claim increases. The fee of the attorney or collection agency is deducted from the amount collected before this is remitted to the party to whom the account belongs.

The subject of collection attorneys and agencies and of collection by legal process is discussed in more detail in Chapters XVI and XVII of the present volume.

**Disputed Claims**

Delayed payments are not always the fault of the customer. It may be that the account is disputed and the customer is unwilling to settle until it is straightened out. If the difference is material, or the part of the account

which is questioned cannot be segregated, he is entirely within his rights. If the amount is immaterial it can be suggested that the customer reserve enough to cover the claim until the matter can be investigated and adjusted, and meanwhile pay the balance at once. If part of the account is undisputed, get the customer to pay the part that is unquestioned, leaving the disputed portion, as before, for consideration and adjustment.

In any case of dispute, the customer's claims should be investigated fully and without delay, and he should, of course, have the benefit of fair and even liberal treatment. It is but seldom that a customer disputes an honest claim if the whole matter is presented to him clearly and fairly.

### **Variance of Records**

Sometimes investigation of a "delayed" account will show that the records of payment on the books of the house do not agree with the payments the customer claims to have made. Such conditions are found most frequently in the case of instalment purchases where the time of the contract extends over a long period, and calls for the payment of numerous small amounts. The account runs along smoothly for a time, but then payments cease or become irregular, and the customer claims that the payments credited to him do not agree with those he has actually made. It is then necessary to go into the matter carefully and find out exactly what has really been paid. To get at the customer's statement of payments made, a form similar to the following may be sent him:

## STATEMENT OF CUSTOMER'S RECEIPTS

Folio.....

DATE	BY WHOM SIGNED	NO. OF RECEIPT	AMOUNT	ANYTHING SPECIAL
		Total.....	\$.....	

The above is a correct copy of my receipts.

..... (Signature)

When this form is filled out and returned to the collection manager, he can check over the records of payments as shown by the customer's report, and the record of payments turned in by the collector or sent in to the house. If the comparison shows that some remittance claimed by the customer has not been received, it must be traced. If the remittance was by check, this is simple. The check will have been deposited by the instalment house, and, if this has been done, the deposited and canceled check goes back to the customer. If, then, the check was really sent, the customer should be able to exhibit the canceled check. If he cannot, it shows either that he did not send the check or that it has gone astray. In either case, the customer can be called upon to stop payment of his check at the bank and send another check for the amount. If the transaction is straightforward, he will have no hesitation in doing this.

If remittance is made by means of any form of paper, such as a check, money order, or exchange, it can be readily traced. If, however, the customer alleges that

the remittance was made in cash, the matter is much more difficult. The remittance, though sent, may have been lost or stolen before it reached the house. Or the customer, though entirely honest in his belief, may not have sent the remittance at all. Occasionally customers state that remittances have been made which were in fact never made, the claim being put forward with fraudulent intent. At other times it may be found that employees of the house have intercepted and stolen the missing payments. Speaking generally, however, the question of a cash remittance is purely one of veracity. Remittances should not be made in cash; and if the customer does remit in this form, the burden of proof that the remittance has been made, rests on him. If he cannot prove the remittance, the loss is his. On the other hand, where a good customer claims a cash remittance which has never been received, it may be good business policy to admit the claim without question—especially when the amount is small.

#### **“Fly-by-Night” Customers**

It sometimes happens that a dishonest debtor changes his location without notice to the house from which goods were purchased, this being done with the definite intention of evading payment of the balance due. In such case a registered letter with “receipt requested” should be tried. This, if sent to his last-known address, will often be forwarded and the receipt be returned to the writer. The postmark of this receipt will give at least the name of the town where the debtor is located; and then he can usually be traced down. The name and address of the sender of the registered letter should be that of someone un-

known to the debtor; and the letter should be sent in a plain envelope or one bearing merely the name of the person who signs the letter. Otherwise, the debtor might discover that it was from a creditor, and refuse to have anything to do with it.

Sometimes instalment houses circumvent this form of trickery, *i.e.*, "dishonest" removals, by strategy. One plan of the kind is as follows: On the back of the lease or contract of sale blank spaces are left to be filled out by the salesman, giving the names and addresses of at least three near relatives of the customer. These will usually be furnished without hesitation at the time the purchase is made, the purchaser supposing they are to be used as references—which in many cases is true. But suppose the debtor, John Smith by name, has left for parts unknown, owing a balance of \$100 on his contract. The collection manager then sends a letter to each of the relatives whose names appear on the contract. This letter is written on the letter-head of the concern's attorneys, is apparently signed by them, and reads somewhat as follows:

NEW YORK CITY, May 14, 1913.

MRS. WILLIAM H. SMITH,  
175 Union Street,  
New York City.

*Dear Madam:*

Some little time ago your son, John Smith, was interested with others in the purchase of a piece of property. It now seems that the title to this property is not entirely clear, and we wish to take the matter up with Mr. Smith, to see if we cannot get it straightened out.

We find, however, that he has moved from his former residence, 86 State Street, and as the matter is of some importance to his welfare, we trust that you will give us his present address.

We enclose stamped envelope and ask that you kindly answer at once.

Very truly yours,

WILLIS & JONES,  
Attorneys at Law.

This whole transaction must, of course, be with the knowledge and consent of the attorneys whose names are signed to the letter. Upon receipt of such a letter the relatives, thinking that there is some business deal involved which may be of benefit to John Smith, will probably give his new address. In the settlement which follows, the instalment house seizes the goods, and John Smith may have time for meditation behind prison bars. This method of preserving the rights and property of the house is not overly nice, but it must always be remembered one is dealing with a dishonest debtor—a would-be thief—and that the ordinary rules of business etiquette do not apply.

## CHAPTER VIII

### CREDIT AND COLLECTION PROBLEMS OF THE SMALL DEALER

#### **The Small Dealer**

Scattered over the country are many thousands of small dealers. The average capitalization is low—perhaps a few thousand dollars—but in the aggregate these small dealers transact a large volume of business. They are found in the city and its suburbs, in large towns and in small, and at country crossroads. Frequently they are not of sufficient importance to be rated in the mercantile books at all, but in the sum total their transactions are imposing; and the large wholesale houses of the country look to them for support.

The smaller the business, the more important is the matter of collections. Ready capital is limited and must, of necessity, be kept in hand. If the small dealer did not collect closely, he would not be able to meet his own payments promptly or keep his business moving properly. As a matter of fact, however, both the accounting methods and the collection practices of these small concerns are frequently of the most ancient and inefficient character. Better methods would bring about fewer failures, better bank accounts, better business conditions, and a more rapid promotion from the ranks of the small concerns.



**The Extension of Credit**

The great trouble in the case of the small dealer is the difficulty of refusing credit. It is not pleasant to decline to trust a customer under any circumstances, and when this customer prefers his request for credit with a tactical skill born of long experience, it requires more strength of character than the average storekeeper possesses, to refuse. Especially is this true when there is a competing store and the dealer fears that a refusal to grant credit may drive the customer into the arms of this competitor.

In the country the standing of those who apply for credit is usually well known to the dealer, and he understands exactly what risk he is taking. In the city the difficulties are greater. It is almost impossible for the ordinary small storekeeper to "size up" the applicants for credit with any accuracy. Competition is keen, and he cannot risk offending his customer. Mrs. Jones has been dealing with him quite regularly for three or four weeks and has always paid cash. Some fine day she comes in and buys a dozen eggs, a half pound of butter, and a quarter pound of tea, and discovers that she has not enough money to pay the bill. It is then the most natural thing in the world for her to suggest, and for him to agree to, charging the goods until "tomorrow"—a tomorrow which does not usually coincide closely with the tomorrow of the calendar; and the account is started.

**Securing Credit Information**

Many times the small dealer gives credit when he would not if he were an entirely free agent. It is but seldom that he can exercise the careful discrimination that

should govern the granting of credit. He should, however, do the best his circumstances permit.

If he must give credit when he would rather not, let him keep this credit at the lowest possible figure. If his accounts will not justify the careful investigations and close watchfulness that prevail where larger credits are at stake, let him give such care and watchfulness as he can. To this end he should secure as full information about applicants for credit as may be done without neglecting more important matters. After the account is opened, let him watch the customer as closely as he can; and in all cases of doubtful credit let him keep the indebtedness at the lowest possible limit.

The sources of information for the small dealer are not as abundant as for the credit man of the larger concern. They are, however, sufficient if he knows how to avail himself of them. The applicant for credit should be closely questioned. Other customers will afford a valuable means of securing information. References given by the applicant for credit will supply the dealer with further data. Even better than this, if he is located in a large city he should be a member of the retail credit association, which keeps at its office a secretary for the purpose of supplying its members with just the credit information the small dealer needs.

Such an association is co-operative in its workings, the members coming to it for information, and in turn reporting any derelictions of the people to whom they give credit. As a consequence, the black sheep in the fold so guarded are pretty sure to find that they are blacklisted and must pay cash for what they secure; and that, as far

as the membership of that association is concerned, their careers as petty swindlers are barred.

Where the credit association does not exist, the small dealer must make his own investigations. Frequently he can secure much information from his other customers. Shoppers at the small stores are very apt to be gossipy, and by discreetly leading up to the affairs of the "credit risk," the dealer can usually get information in quantity. He must use judgment in applying this information, and should, if possible, get the point of view of several of his customers, as a single opinion may be prejudiced or unreliable. When he has this, he can usually, by comparison and elimination, discover with fair accuracy the property, standing and reliability of the person who wishes the charge account.

### **Opening the Account**

One of the first questions to ask the applicant for credit is his exact name. There are but few names that are not more or less closely and numerous duplicated, and, if the individual is ever to be traced in case of need, his full name must be recorded. The storekeeper must also be particular to get the correct address, street and number, of his customer, if the town is one of any size. Also, where he is a newcomer, his former address should be secured. Where the account is likely to be more than a petty one, this will give opportunity for investigating his standing with tradesmen in the place from which he came. For this purpose the applicant should be required to give the names of at least two merchants with whom he has done business, and a confidential letter should be sent to these merchants asking what amount of credit

they extended him, and the manner in which he met his bills.

Another method of opening an account and of getting security for its payment at the same time, is to require the customer to sign an application for the line of credit he wishes—say to the amount of \$25. If he is anxious to get the accommodation, he will be perfectly willing to sign this application, which can be so drawn up that it is in fact a note, giving the merchant, in case of non-payment, an assignment of wages and a lien on all personal property and real estate owned by the applicant. This note can also be made to acknowledge judgment on non-payment, and when properly drawn is a strong security.

If the merchant decides to use this method, it will profit him to pay a good attorney to draw up the application according to the statutes of the state in which he is doing business. The form should contain the name and address of the applicant, the name of the employer, the wages received, the name of his wife, the number of children, the date of pay-day, references, and any other data desired. The merchant will thus secure all the information he needs from the form itself and will be sure that he has not overlooked any points. The form of report given in the chapter on "The Collector and His Work" (Chapter xv) covers all the information which will usually be necessary in this application note.

If it can be done without giving offense, the smaller city dealer, or anyone else selling to wage-earners, should make weekly payments of accounts a condition. As a rule, accounts will not reach serious proportions inside a week, and, if the dealer insists strictly on weekly payments, he is not risking a great deal. He must, however, adhere

religiously to payment on the appointed date, or otherwise stop furnishing goods. This is the only safe plan unless security is taken, or unless the customer is known to have valuable unencumbered property. Even then, thirty days should be the extreme limit for small accounts.

### **Sales and Collections**

The smaller dealer should constantly keep in mind that, no matter how satisfactory the volume of business, his profits depend upon the collections of his accounts. It avails him nothing to sell goods if he does not get paid for them, and goods in hand are better than a bad account.

The writer was recently called in to take charge of the bad accounts of a small concern, and found a neat and attractive store, an active and apparently prosperous business, and a proprietor thoroughly in touch with his line. The profits were, however, disappointingly small.

A very superficial investigation disclosed the trouble. The selling, the buying, and the ordinary routine of the business were taking all of the proprietor's time and that of his clerk. As a consequence, accounts were not properly attended to; and, while sales were satisfactory, collections were not.

In taking over the accounts, the effects of this neglect were everywhere apparent. In some cases the very names of customers were not correctly entered. In many cases addresses were incorrect or were missing entirely, and apparently the proprietor was trusting almost everyone who came along. One customer was credited, not because of his present financial ability, but because he expected to receive money from an estate, and on this shadowy basis

he had already run up a large bill and was still getting goods.

The merchant is dealing with the living present, not the dead past nor the visionary future; and credit should be extended only on existing security. What a man is going to receive is no basis for credit—unless it be something reasonably sure, such as wages, regular interest, or annuity payments.

### **Collecting Accounts**

But if credit has been given, the pressing question is how to make collection. The point that cannot be too strongly emphasized in connection with small accounts is the necessity of a close follow-up. This is true in a general way with all accounts, but more particularly so with the small account. If it is not closely followed, it is neglected, forgotten or purposely evaded by the debtor. If, on the other hand, it is properly followed up, fraudulent evasions will be few; customers will never be allowed to run into debt beyond their means; and, if any turn of circumstances makes it really impossible for them to pay what they owe, the loss to the dealer will not be serious.

Do not let accounts run behind. If fixed dates for payment have been agreed upon, payment should be made upon those dates, or the matter should be taken up at once for investigation. Good reasons may be given for a temporary postponement, but if the dealer is wise he will not let these postponed payments aggregate any large amount, unless as a matter of friendship or charity.

If an account is not paid promptly on the proper date, the first step is to make out an itemized statement of the

account, giving the debtor's full name, and either call on him or write him a letter asking him to call at the store. A heart-to-heart talk will usually bring about an understanding of the situation. It will also bring a good deal of information as to the customer's real financial status. If he cannot make full payment at once, it may be possible to arrange for a certain amount down and weekly payments for the balance. An honest man will be glad to make such an arrangement; and, if collections are closely followed, the money will eventually be paid. Or in some cases the customer may be willing to give an order on his employer for the money due. If so, the employer must be followed up as regularly and carefully as if he were the customer, until the amount is paid.

In the case of laboring men who are behind in their payments and will not give an order on their employers, it may be necessary to call on the employer direct, or to notify him of the overdue account and request his assistance in securing its payment. This, however, should be done with discretion, or it may result in the dismissal of the employee, with a resulting loss to the dealer of the entire account.

The small dealer frequently encounters difficult and even painful cases—particularly when he is dealing in the necessities of life. Let him be as easy in collections as may be with deserving debtors, but when he lets small accounts run over, or gives additional credit to customers who are already behind, let him recognize this as generosity or charity, as the case may be—not as business.

One exception to this general statement must be noted. A small dealer will sometimes "stake" a customer who is out of employment, or who for some special reason is

unable to pay at the time, and will perhaps carry him for weeks or even months. In such cases the dealer knows the customer and relies entirely upon the personal equation, feeling confident that the credit risk will "pull out," will pay for what he has already had, and will thereafter be a steadfast and profitable customer. Such a proceeding is somewhat outside the realm of ordinary business, but is entirely justifiable and in fact commendable. The dealer should, however, be sure of his man, or otherwise he may suffer a financial loss, and in addition a loss of confidence in human nature, which is even more serious.

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Credit must be given. But the dealer must remember that it is worse than useless to sell goods unless he is paid for them, and that it is as much a part of his business to see that payments are made as to sell the goods in the first place.



## CHAPTER IX

### COLLECTION LETTERS—GENERAL CONSIDERATIONS

#### **Requirements**

Of all the letters the business man is called upon to write, the collection letter is perhaps the most difficult. Money may be due, and there is no real reason why the debtor should not be asked to pay it. Nevertheless, there are few things in business a man resents so much as a request for money. The collection letter must, therefore, not only overcome the debtor's natural reluctance to pay, but must overcome it without injury to his feelings—at least if his good-will is to be retained. For this reason the collection letter requires intelligent study and much care.

It is obvious that the conditions of a debt will directly affect the letter devised for its collection. To a small account, unless something more is involved than its mere amount, but little time and trouble can be devoted. With larger accounts the letter may, in many cases, be nothing more than a notification that the account is overdue; in other cases the debtor must be persuaded, must be reasoned with, or must be driven into payment. It is obvious that no one letter or series of letters can be devised to meet all cases. Form letters may be prepared that will satisfy a majority of collection requirements, but these letters must be modified as required by the peculiar

conditions of special cases, and at any time it may be necessary to discard them entirely.

This is particularly true in the collection of larger amounts, where the sum involved is sufficient to justify much care and attention. Here a knowledge of the personality and the condition of the debtor will be found of material assistance. It not only enables one to handle the matter with intelligent tact, but, by utilizing or referring to some personal incident or other matter in which the debtor is interested, it is often possible to gain his confidence and his good-will, and in this way get him to really do the best he can in the matter of making payment. It is obvious that the form letter must be abandoned in such cases.

No invariable rules can be laid down for the preparation of collection letters. In general it may be said that to secure proper attention and—which is even more important—to bring the money that is their ultimate object, such letters should be characterized by (1) clearness, (2) terseness, (3) force, and (4) courtesy.

### **(1) Clearness**

The necessity for clearness in a collection letter, and indeed in any other business letter, will be admitted. It is, however, impossible to write a clear letter unless a clear idea exists in the writer's mind of the ends to be attained by his letter and the means by which he expects to attain them. He must know what he wants to say and then say it so that its meaning is as clear to the recipient as to himself. Paragraph freely, so that each idea stands out strongly by itself. Do not bring in irrelevant material of any kind that would obscure or divert atten-

tion from the main thought; *i. e.*, that the writer wants the money due him. Above all things do not let personal feelings influence the letter to its injury. At times indignation or even anger may be proper, but these should be used as a means to an end. The letter should not be made a vehicle to relieve the collection manager's feelings at the expense of his collection.

At times references to matters not immediately connected with the collection of an account help to soften the request for money. Thus, as already suggested, after calling a customer's attention to his overdue account, the letter might go on to mention some new line of goods, or any other relevant matter of possible interest, in order to give an incidental and inoffensive air to the demand for payment; but even here, however, the request for money should be clear, and should be given sufficient prominence to prevent its being submerged and lost under the reference to special sales or other such matters. The announcement may and should have a direct advertising value, but its primary purpose is to soften the harshness of the request for money and to give it a matter-of-course air; and it should be used only in subservience to this more important purpose.

## **(2) Terseness**

As a rule, a collection letter should be terse. What is to be said, should be said as fully as is necessary to convey the desired meaning, but it should be said in a concise, pointed manner. Long, involved sentences are entirely out of place and tend to weaken the letter. Terseness makes both for clearness and for force.

On the other hand, terseness should not ordinarily

be carried to the point of brusqueness, as this might in itself make the letter offensive. Also, if the account is questioned, terseness is to be avoided. In such case it is politic to discuss the matter at such length and in such detail as to show that the writer is really desirous of getting at the facts. Indeed, at times a little "rambling" may be advantageous in a collection letter, provided that in this verbal traveling the writer does not lose sight of the main purpose of the letter—to collect money. The principle involved here is that of breaking the news gently. You want the money and perhaps you are determined to have it. A plain statement of the facts may get it; but you are in many cases much more likely to get it if you go into much detail as to your surprise and regret at its non-payment, the trouble the delinquency of the debtor is causing you, and the injury to the customer's credit if you are forced to extreme measures, etc., etc. The whole matter is one of discretion.

### **(3) Force**

The two characteristics already discussed, *i. e.*, clearness and terseness, are essential to force. Beyond this, force requires the use of such language and such expressions as will cause the recipient of the letter to act. There is nothing more forceful than simple Anglo-Saxon, with its short, strong words; and the collection manager will do well to cultivate its use. In a collection letter, above all others, a spade should be called a spade and not be referred to as an agricultural implement.

It may also be noted that the forceful letter is usually built up of short sentences. A long, involved sentence does not lend itself to force of expression. A complex

idea should be expressed in a number of short sentences, unless one strong, clear, and not too long a sentence can be made to carry the whole idea.

#### **(4) Courtesy**

One of the essential elements of successful collection letter-writing is courtesy. There are occasions when a rough and even brutal collection letter is a proper letter to write; but such occasions are rare. The collection manager may at times find it advisable to be indignant, sarcastic, or even angry; but he should never violate the rules of courtesy and sink into rudeness or brutality, unless it is clearly and unmistakably necessary to gain his ends.

It is one of the elementary principles of successful collecting never to offend a debtor if it can be avoided, and particularly when this debtor is a customer with whom future business is desirable. To ask a man for money is a delicate matter at the best, and both courtesy and good feeling are usually necessary to make the request effective without disturbing the friendly relations between the parties.

#### **Style**

There is always a tendency in letter-writing to indulge in language and expressions that are not characteristic of the writer's conversation. This is not entirely to be deprecated. A man may be a very effective talker, and yet his style be so loose, so defective as to grammatical construction, and so lacking in accuracy, that a letter in the same style would produce more amusement than money. Speaking generally, however, a letter written in the same

general style you would use in talking is—if you are a good talker—much more effective in every way than one that is unnatural, stilted, and perhaps grandiloquent.

It is not a bad idea when writing an important letter to imagine the debtor before you, and dictate as you would talk under such circumstances. Naturally your dictated letter must be more concise and more directly to the point than your conversation, and it is not possible to bring in illustrations and explanations as freely as you do when you are talking. At the same time, words and phrases that you would not use in conversation are to be avoided, and as far as suitable the natural directness of spoken language should be employed.

The free use of slang expressions is not to be commended. There are, however, so many expressions in the English language that have been crystallized into so-called slang, and the American people are so used to such expressions, that an occasional word or phrase of slang gives a force which could be obtained in no other way. Do not, however, use slang too freely; and use it only when it really adds to the force and effectiveness of the letter.

### **Tone of Letter**

The condition of the particular account has a good deal to do with the tone of the collection letter. It is obvious that an account which is just due requires very different handling from one that is badly in arrears. Courtesy should characterize the letters in both cases, but, while the later letters will be as peremptory and as strongly expressed as they can be made without being absolutely offensive, the first letters will usually take a

tone of friendly confidence that payment will, of course, be made, and that the letter itself is merely a reminder.

It is always unwise to write a collection letter under the influence of excitement or anger. If you do write under such circumstances, keep the letter until you cool off; then read it over, and send it if you still think it wise to do so. It is safe to say that in nine cases out of ten the letter will not be sent.

### **Appearance of Letter**

The mechanical construction and arrangement of the collection letter is outside the province of the present volume. It may, however, be suggested that the letter itself should be neat, clean, and arranged according to the general form used by the house; and that the stationery should be suitable both in quality and style to the business it represents. A cheap letterhead inevitably gives the idea of a cheap concern. Also, in these days of good typewriting, the letter should be mechanically good. If form letters are used with names, etc., filled in, the filled-in portion should be so well matched in color and so neatly inserted that it cannot be identified as a form letter. A letter that proclaims on its face that it is a form letter is worse than a printed notice.

### **Suggestions for Collection Letters**

Always be sure, in writing a collection letter, that the money asked for is the amount really due. Nothing irritates a customer more quickly than to be asked to pay more than he owes or to pay an amount that is not due at all. Further, a dunning letter inaccurate as to amount creates a bad impression of the house from which it

emanates, and, if the matter should ever be brought into court, the erroneous letter might be very embarrassing for the collection manager.

Even with the most tactful treatment, it not infrequently happens that a debtor becomes irritated by the continuous persistence of the collection department, or is aggrieved by the peremptory tone of its letters. Sometimes, indeed, the collection manager becomes irritated himself and lets this irritation crop out in his letters; and then the debtor has grounds for grievance. In such cases, if the customer is worth keeping, he can frequently be brought into line by a diplomatic letter from some important officer, or perhaps the head, of the concern. Such letters are usually written only when requested by the collection manager. Their tone will vary with conditions. If the collection manager has really lost his temper and written letters that were too peremptory or were otherwise offensive, the official can deplore this fact, explain that the objectionable letters were not authorized by the concern, were written without its knowledge and consent, and regret exceedingly the fact that they were written at all. If this is tactfully done, it will usually establish an era of good feeling, and later on in the letter the official can take up the matter of the debt and suggest some form of settlement, or perhaps ask the debtor for suggestions on his part as to how the account can be settled up most speedily and with the least inconvenience to him.

Or, if the collection manager's letters have been fully justified, the official writing can take his choice of a number of different grounds. He may suggest that the collection manager did not quite understand the situation, or did not fully appreciate the consideration that should



be extended an old customer, or was misinformed as to some condition, or took the position he did without authority, etc.

In any such case the elimination of the collection manager puts the matter on an entirely different basis, and, with proper handling, some settlement of the account should be possible. It is but rarely that a man who fully intends to evade his debts takes umbrage at any collection letter, no matter how emphatic or offensive its tone. Hence, the mere fact that a customer objects sufficiently to a collection letter to voice these objections, is in itself an indication that he expects—or can be made to expect—to pay. It is then up to the official who takes the matter in hand to make the most of the possibilities.

### **Postal Cards**

Postal cards should rarely if ever be used in making collections. The only excuse for their employment lies in the fact that the card can be mailed for a penny and saves stationery. Its disadvantages completely overbalance these small advantages. The postal card message is public property and the debtor may very justly be offended at the publicity given to his private affairs.

In former days the postal card was frequently used by collection managers just because of the very objectionable publicity brought upon the debtor. The Federal government, however, stepped in and blocked the scheme. A mere notice on a postal card that payment will become due on a certain date is forbidden. Nor is any matter tending to cast a reflection on the character or the standing of the person addressed, allowable on a postal card.

In fact, so much is excluded that the postal card is practically disqualified for use in making collections.

Some circumspection must also be used as to what appears in collection letters. Libelous and abusive statements and threats are not permissible, and may bring the sender into trouble with the Federal authorities, even though the letters are sent in sealed envelopes. The hand of the Federal authority is heavy; and the collection manager should take no chances of bringing it down upon himself. In case of uncertainty he should either keep to the side of undoubted safety or consult and be guided by his postmaster.

### **Collecting Letters**

The collection manager must vary his letters to meet conditions. Form letters or other good letters which might be adapted to his own use or which might give him suggestions for letters of his own, are always desirable, and he should be constantly on the watch for these. To preserve them, he should have his scrap-book or files in which all such letters may be kept in convenient form for reference.

Such letters will come to the collection manager from various sources. His own letters as he works them out and proves them will, of course, be carefully preserved. He can also secure letters by exchanging with other collection managers, and occasionally very good letters will be found in works on letter-writing.

One method of securing collection letters is at least interesting. Some time since a gentleman made a small purchase from a house noted for its very excellent collection methods. On the due date his indebtedness was not

paid. Statements were mailed him without result. A letter went forward, but received no attention. Another letter, and yet another, followed; but nothing happened. This went on until the patience and the collection resources of the house were practically exhausted, and a final notice before suit warned the delinquent debtor that the end had come. Then he made his appearance, settled up his account with apologies, and explained that the collection letters were so very good and the procedure so interesting that he felt compelled to wait until the last one had come into his possession

## CHAPTER X

### COLLECTION LETTERS FOR PETTY ACCOUNTS

#### **Small Accounts Unavoidable**

It is obvious that a small account does not require the same treatment, and will not justify the trouble and expense, which are properly given to the collection of more substantial accounts. In almost every business some of these small accounts are found, and in many cases their total is formidable. Indeed, in some lines the small account is the mainstay of the business, the number and aggregate amount of all compensating for the small amount of each.

It is true in many cases that these small accounts are more trouble than they are worth, but it is impossible to avoid them. Speaking generally, if the dealer gives credit at all, he cannot discriminate between large and small accounts. As a matter of fact, he is practically forced to bring accounts on his books which he knows, at the time, are not justified by the profits of the immediate transaction.

As small accounts are a necessary evil, it behooves the dealer to devise some means by which they may be handled effectively, and with the least trouble and expense. As a rule, such accounts must be closely watched. If they are not, the customer forgets or neglects them; and they drag along until there is danger of his becoming irritated by the efforts of the concern to collect, or—which

is even more serious—alienated by the mere disagreeable fact that the concern holds a long overdue account against him.

It must be remembered that no cast-iron rule can be made for the collection of accounts. The matter is one to be governed largely by conditions. The general rule in small accounts is to collect closely, but thoroughly good customers will frequently allow small accounts to run for months. They have neither forgotten the obligation, nor intend to evade it. As far as they are concerned the matter is one of small importance, and it is merely a matter of waiting until the spirit moves them. Of course, the dealer might make his rule rigid, or, in other words, take the position that if people wish to buy from him they must do so in accordance with his regulations; but the majority of dealers cannot, if they would, afford such independence. Too many good customers would go to more accommodating dealers elsewhere.

### **Close Collections**

Much judgment should be employed in using any set of collection letters where the customers are good and well known. Many houses never send letters out to such customers at all, relying upon monthly statements and their confidence in the individual. As a rule this confidence is not misplaced, though the necessity and the wisdom of the proceeding is open to question.

The whole matter is one of custom, of circumstances and of discretion. Where customers are used to being followed up closely, and it is properly done, they seldom object to it. New customers, used to longer terms or slacker methods in other stores, may perhaps object at first; but

if the service and the goods supplied are as excellent as the collections are close, these new customers will usually fall into line and keep their small accounts well paid up.

Where a house has gotten into easy-going methods—where their customers are habitually allowed long and uninterrupted time—where, in short, accounts are practically left to be settled at the convenience of the customer—any change of practice is extremely difficult and is very liable to give offense. In such case, if a more systematic method of collection is desired, it will require a great deal of explanation, of care, and of tact; and even then some good customers will probably be offended and leave—temporarily at least. When such a change is to be made, if it can be reasonably explained by some circumstances, as, for instance, the introduction of a new system of bookkeeping, or a change in the organization of the concern, it makes the matter much easier and less offensive to the customer.

### **Illustrative Letters—(1) Good Customers**

This series was prepared for use where the customers are well known to the concern giving them credit, and are in the main thoroughly good pay. Accounts are considered due on the first of the month following that in which the purchases were made; and an itemized statement is sent out on that date. If the customer does not respond within ten days, a first letter is sent out calling his attention to the account. The first paragraph of this letter is the same for all "first" letters; the second paragraph is "voiced" to suit the occasion, as in the following example, or is at times omitted entirely:

LETTERS FOR PETTY ACCOUNTS 119

June 10, 1913.

MR. HENRY PEARSON,  
198 Pelham Avenue,  
New York City.

*Dear Sir:*

In looking over our books, we find a small charge against you of \$2.50 for goods purchased during May. We are sorry to trouble you with so small a matter, but we always like to get these small accounts closed up as near the first of the month as possible. Will you not kindly send us the amount?

Or, better still, can you not bring it in yourself? We should be glad of the opportunity to show you something interesting in loose-leaf ledgers—something quite new, and, we think, much more convenient than the ledger you are now using.

Yours very truly,  
JOHNSON & AMES.

This is entirely friendly and could not offend the most sensitive. With a good customer it is very apt to produce a remittance or call. If it does not, the following letter is sent out about ten days later, with a stamped and addressed envelope enclosed for reply:

June 20, 1913.

MR. HENRY PEARSON,  
198 Pelham Avenue,  
New York City.

*Dear Sir:*

The small amount due us on your May account—\$2.50 for a half-bound ledger—has not yet been paid. Probably it has been overlooked, or perhaps you are waiting to bring it in yourself. In any event, we are perfectly willing to wait until you are ready to settle the matter, but we should like to know when this will be, in order to avoid the annoyance to you and the expense to us of unnecessary reminders.

We are enclosing a return addressed envelope. If you do not care to settle the matter now, will you kindly advise us just when you will do so?

Yours very truly,  
JOHNSON & AMES.

This letter, again, can hardly give offense and should bring a remittance—or a date. If no attention is paid to

it, the following letter may appeal to the debtor's sense of humor, and should produce results:

June 30, 1913.

MR. HENRY PEARSON,  
198 Pelham Avenue,  
New York City.

*Dear Sir:*

Your May account—\$2.50—is still outstanding and is giving our bookkeeper much concern. He has been figuring very diligently and now lays before us the following estimate of expense in connection with the account:

One statement.....	.04
Two letters at 6c. each.....	.12
Present letter.....	.06
<hr/>	
Total .....	.22

In other words, he says it has already cost us 22 cents to collect \$2.50—and the \$2.50 is not collected yet. Will you not relieve him from further calculations and ourselves from further expense by a remittance?

Yours very truly,  
JOHNSON & AMES.

If this letter does not secure attention, the account, if in the city, had better be placed in the hands of a tactful collector for personal effort. Or, if the house deems payment more important than a continuation of the customer's patronage, a rough-shod letter might be written that would either shame him into paying or drive him away completely. Out-of-town accounts might at this stage be drawn upon—after notice.

As a rule, a customer who lets a small account of this sort run without attention of any kind to letters in regard to it, is not a good risk and had better be dropped from the list. It does, however, sometimes happen that a really worth-while customer lets the matter run over



through neglect, or because he feels so sure of his standing with the house that he makes it await his entire convenience. Even in this case he should answer the second letter of the present series.

### **Illustrative Letters—(2) Insistent Collection**

The following series of collection letters was designed for a business much the same as that just considered, in which the customers are good for the most part, but neglectful of their small accounts. Collections are closer and more insistent than in the preceding series, and much less care is taken to avoid offense. It is assumed that the accounts are due and that there is no reason why they should not be paid; and payment is asked for frankly and with some measure of bluntness. Payment is due on the first of the month for purchases of the preceding month.

On the first of the month a statement goes out. If no attention is paid to this, the following letter is sent out on the 15th:

DETROIT, Mich., May 15, 1913.

MR. WILLIAM COLE,  
13 State Street,  
Trenton, N. J.

*Dear Sir:*

Statement of your account was sent you a few days ago, but we have heard nothing from you. The amount due us—\$7.50—is small, and doubtless the matter has been overlooked. We would not bring the matter up again so soon were it not for the fact that we carry a large number of these small accounts on our books, and delays in settlement make us some little expense and a great deal of trouble.

We know you will appreciate this fact, and we trust you will send us a remittance by return mail.

Yours very truly,  
ELLIS STATIONERY CO.

If this letter does not bring a remittance or a reply, fifteen days later—or sooner if closer collection seems advisable—the following letter is sent out:

DETROIT, Mich., May 30, 1913.

MR. WILLIAM COLE,  
13 State Street,  
Trenton, N. J.

*Dear Sir:*

We wrote you on the 15th, asking for a remittance in settlement of your overdue account of \$7.50. We do not wish to annoy you by too great insistence in the matter, but, as you can readily understand, delay in payment means expense and trouble for us, not justified by the size of the account.

Will you not save us any further correspondence in the matter by sending in your remittance?

Yours very truly,  
ELLIS STATIONERY CO.

If this letter does not produce results, the account is usually placed in the hands of a collector for personal effort. If too remote for this, a letter, followed by draft, is tried.

DETROIT, Mich., June 10, 1913.

MR. WILLIAM COLE,  
13 State Street,  
Trenton, N. J.

*Dear Sir:*

We have sent you statement and have written you twice in reference to your overdue account of \$7.50. Neither statement nor letters have received any attention. If there is any reason why the account should not be paid, we shall be glad to know it. If there is not, we shall expect a remittance.

If we do not hear from you by the 20th, we shall draw upon you for the amount.

Yours very truly,  
ELLIS STATIONERY CO.

If neither this letter nor the draft brings any response, the following letter has been found very effective:

DETROIT, Mich., July 1, 1913.

MR. WILLIAM COLE,  
13 State Street,  
Trenton, N. J.

*Dear Sir:*

We have an account against you of \$7.50 for goods which you have received. We have sent you statements of account and have written you requesting payment. We have also drawn upon you for the amount. Our letters have received no reply. Our draft is returned unpaid.

In the history of our business we have found that there are two classes of men who treat our accounts in this manner: First, those who are entirely honest and fully intend to pay us, but who are slow getting round to it or are forced by circumstances to delay; and, second, those who are plain deadbeats and have no intention of paying unless they are forced to.

We believe you to be of the first-named class, but unless we hear from you immediately with a remittance or with an explanation of your failure to pay, we shall be obliged to treat you as though you belonged to the second class, and put the matter in the hands of an attorney in your vicinity for collection.

We shall wait until July 10th before taking this action, and trust, for your own sake as well as ours, that we may have some word from you before that time.

Yours very truly,  
ELLIS STATIONERY CO.

### **Illustrative Letters—(3) Corporation Accounts**

In the business in which these letters are used the amounts are small, and the customers are usually excellent credit risks. In fact, they are largely found among the well-known and responsible corporations of the country.

Purchasers of this calibre are very apt to have their own rules as to payment of accounts. In some cases small accounts are paid the following month. Others take 30, 60 or 90 days. In all cases they wish accounts to pass through their regular routine, whatever it may be. Hence, even though the nominal terms of sale in the creditor's

business are cash on the first day of the month following that in which the purchases were made, the ordinary rules for close collections are not applicable. A close follow-up would undoubtedly in many cases induce a prompt payment; but it would inevitably alienate the customer. In other words, the purchasers recognize the fact that they are desirable customers, and must be dealt with on their own terms or not at all.

In following up customers of this character it is obvious that letters must bring the personal note into play. The amount at stake is a small one for both parties, and, if the account is correct, will usually be paid without question when the pay-day of the customer is reached. All that is needed is to keep the account before the customer so that it is not overlooked or neglected. The various persuasive, forceful and ingenious letters written to individuals and concerns of less certain standing are entirely out of place.

In practice, on the first of the month on which the account is due, a detailed statement is sent the customer. Nothing further is done that month. If the customer likes to remit, well and good. If he does not, no special notice is taken of the fact until the first of the following month. On this date a second statement is sent out, on which is stamped:

PLEASE REMIT.

Or, if a little greater urgency is deemed advisable—

PAST DUE!

PLEASE REMIT.

This winds up the collection procedure for the second month, the accounts running over until the first of the

following month, or sixty days from the due date. A short statement is then sent out accompanied by the following very simple collection letter:

NEW YORK, May 1, 1913.

HOWARD MANUFACTURING Co.,  
79 Calvert Street,  
Baltimore, Md.

*Gentlemen:*

We are enclosing herewith statement of your account, which is now overdue. The matter is a small one, and we suppose it has been overlooked. We shall greatly appreciate a remittance by return mail.

Yours very truly,

HARLEY-WILSON PAPER Co.

With accounts of this character, if the customer acts at all, it will be to send in his remittance. The matter is not of sufficient importance for him to write unless perhaps there is some error in the charge. In such case he is very apt to voice his objections, and, if he does, his complaint should be taken up at once and the matter be adjusted then and there.

If the foregoing letter does not produce any result, the matter rests until the first of the following month, when the account is ninety days overdue. The second letter of the series then goes out:

NEW YORK, June 1, 1913.

HOWARD MANUFACTURING Co.,  
79 Calvert Street,  
Baltimore, Md.

*Gentlemen:*

We have not yet received a remittance in settlement of the account against you. The amount is small—\$7—but it is expensive and troublesome to carry these small accounts so long, and we shall hope to receive a remittance in settlement by return mail.

If this does not reach us by the 10th, we will draw upon you at sight for the amount.

Yours very truly,

HARLEY-WILSON PAPER Co.

If this letter does not produce a remittance or a reply of some kind, a draft should be drawn upon the 10th, or such other date as may have been specified. Unless the concern is a very poor risk, or otherwise has some grievance in respect to the account—in which case the draft will probably provoke a letter of some kind—the draft will be paid. If it is not paid, a short letter is written somewhat in the following style:

NEW YORK, June 15, 1913.

HOWARD MANUFACTURING Co.,  
79 Calvert Street,  
Baltimore, Md.

*Gentlemen:*

We have written you twice in reference to the amount due us. These letters have not received the courtesy of a reply. We have drawn upon you and the draft has not been paid. If we do not hear from you by the 20th, we shall place the account in the hands of our attorney.

Why should you subject us to this expense and yourselves to injury to your credit to postpone payment of this very small amount? The account is long overdue. Why not send us a check?

Yours very truly,

HARLEY-WILSON PAPER Co.

If this letter does not produce results, the account might as well be placed in the hands of an attorney or collection agency at once. The concern is, under such circumstances, undoubtedly poor pay; and the size of the amount hardly justifies further direct effort.

#### **Illustrative Letters—(4) Indorsement Plan**

In a business such as considered under the preceding series of letters, the same effect is secured almost if not quite as well by means of rubber-stamp indorsements on the statements. The customers are thoroughly good—

with a very few exceptions—and the admonition of the rubber stamp will bring the matter to mind almost as effectively as would a collection letter.

Under this plan the first statement is sent out on the first of the month following the purchase, *i. e.*, the due date of the account. The second statement is sent out on the first of the second month, thirty days after the account is due, with the following indorsement stamped upon it:

ACCOUNT PAST DUE!

A remittance will be appreciated.

If this produces no result, on the first of the third month, when the account is sixty days overdue, a statement is sent out indorsed as follows:

ACCOUNT 60 DAYS OVERDUE!

Please remit.

A blank is left in this stamp where the number of days appears and the "60" is filled in at the time the stamp is put on. As the stamp is always used at the 60-day period, the number 60 might be incorporated in the stamp itself, but the insertion of the number gives a personal touch that has a certain value.

If no attention is paid the 60-day statement, a third statement is sent out fifteen days later, stamped as follows:

ACCOUNT 90 DAYS OVERDUE!

We shall draw if remittance does not  
reach us before the.....

The numbers are filled in on this stamp with the pen, as before. If this statement does not produce the desired

effect, a draft should be drawn on the stated date, and, if this is returned unpaid, the matter is one for the concluding letter of the preceding series, and thereafter for collection by legal proceedings.



## CHAPTER XI

### COLLECTION LETTERS FOR LARGER ACCOUNTS

#### **Handling Larger Accounts**

The larger the amount involved, the more care should the credit man exercise in extending credit. On the other hand, customers who wish the larger credits are usually better known and more easily looked up, and the larger account should therefore be a surer risk than the small one. Once credit is granted, however, it is the duty of the collection manager to see that the accounts are paid with reasonable promptness and that the house incurs no loss through any negligence or over-confidence of his.

#### **Illustrative Letters—First Series**

As in the case of any other account, the collection manager sends out his statement on the due date. Fifteen or thirty days later, or at such other interval as the policy of the house may determine, a second statement goes forward, and even a third, before anything more aggressive is done.

When the end of the statement period has been reached, a collection letter is sent out calling attention to the account. Until the contrary is proved, it is presumable that the customer is a desirable one, and, while all the letters should be courteous and politic, the first two or three must be phrased with special care to avoid giving offense. The problem at this stage is to get the money

promptly, but to do it without driving away or even ruffling the feelings of sensitive customers.

The following first letter is strongly suggestive, but is friendly in tone and should not give offense:

NEW YORK, June 1, 1913.

MESSRS. JOHN H. DAVIS & Co.,  
718 Sansom Street,  
Philadelphia, Pa.

*Gentlemen:*

Did you receive our statement of account sent you on the 1st? You may, of course, have postponed its consideration, but you are always so regular in your remittances that we think the statement must have gone astray. If so, we shall be glad to send you a duplicate.

Yours very truly,

MEDFORD SHOE CO.

This serves as a reminder, and, where the concern is first-class, will usually bring a response of some kind. If the customer is new, the explanation that he pays his accounts regularly must, of course, be modified. In such case the following phrase might be substituted: "but we know so well your reputation for promptness that we think the statement must have gone astray."

If no response is received to the first letter, the next letter of the series will follow at the proper interval.

NEW YORK, June 15, 1913.

MESSRS. JOHN H. DAVIS & Co.,  
718 Sansom Street,  
Philadelphia, Pa.

*Gentlemen:*

Can you not send us a remittance in settlement of your May account, or let us have a part of it, at least? We are always glad to get money, but we can use it to such great advantage right now that we shall appreciate a remittance much more than ordinarily would be the case.

We know you will understand the situation and shall hope to hear from you by return mail.

Yours very truly,

MEDFORD SHOE CO.

A concern of any credit standing will hardly let these two letters pass without notice. If neither remittance nor reply is received, more vigorous measures are necessary. The following letter may then be used:

NEW YORK, July 1, 1913.

MESSRS. JOHN H. DAVIS & Co.,  
718 Sansom Street,  
Philadelphia, Pa.

*Gentlemen:*

We have written you twice in reference to your account and are still waiting for a reply. More serious than this, we are still waiting for a remittance.

As you are aware, your account is much overdue, but you have not given any reason for your failure to remit. If anything is wrong, let us know at once. If not, we shall expect you to send us a remittance in full, or in part, by return mail.

If we do not hear from you by the 10th, we shall draw for the amount.

Yours very truly,

MEDFORD SHOE CO.

If this letter does not secure attention, a draft will, of course, be drawn on the specified date. Frequently a letter is sent at the same time, notifying the customer that the draft has been drawn. Such a letter is, of course, entirely proper, and in some cases will undoubtedly have a good effect. As, however, the debtor has already been notified that the draft will be drawn, a second letter can hardly be considered necessary.

If the draft is returned unpaid, a fourth letter might be written, as follows:

NEW YORK, July 25, 1913.

MESSRS. JOHN H. DAVIS & Co.,  
718 Sansom Street,  
Philadelphia, Pa.

*Gentlemen:*

We have written you three times in reference to your account of \$325, which is long overdue. We have drawn upon you for the amount. Our letters have been unanswered and the unpaid draft is returned with the indorsement, "No attention."

Why do you ignore the matter? We trusted you with our goods, and your failure to pay us or even to explain your failure is not courteous or even strictly honest.

It still seems to us there must be some misunderstanding in the matter, and we hesitate to involve you in the expense and injurious publicity of collection by legal process unless you force us to do so.

If you can remit even in part, we shall be glad to extend you every possible consideration, but, unless we hear from you in some way before August 1st, we shall place the matter in the hands of our attorneys.

Yours very truly,  
MEDFORD SHOE CO.

When the account reaches this point, considerations for the customer's feelings have but little weight; and the account is to be collected in any way that is most effective. Special letters may be tried, or the account be placed at once in the hands of an attorney or collection agency. Such customers are obviously undesirable, save on a cash basis; and if they are handled in a businesslike way, they are just as likely to come back to the concern for their cash purchases—unless they can find someone else who will give them credit—as to go elsewhere.

### **Illustrative Letters—Second Series**

The following somewhat short and summary method of dealing with accounts is employed by a well-known New York concern dealing largely with jobbers. A statement of goods purchased is given the customer at the time

the purchase is made. The terms of payment are invariably thirty days.

No statement is sent out on the due date, as the customers are themselves supposed to keep track of accounts payable. If, however, a remittance is not received within ten days of the due date, a statement is sent out with the following brief letter:

NEW YORK, June 15, 1913.

MR. MILTON A. HARLOW,  
816 Euclid Avenue,  
Cleveland, Ohio.

*Dear Sir:*

Please find enclosed statement of your account, due on the 5th. Will you kindly remit in settlement of same?

Yours very truly,

WARDWELL MANUFACTURING CO.

This suggestion is sufficient in most cases to bring in a remittance. If nothing is heard from the account within ten days from the time the statement and letter go out, a second letter is written, also enclosing a statement of the account.

NEW YORK, June 25, 1913.

MR. MILTON A. HARLOW,  
816 Euclid Avenue,  
Cleveland, Ohio.

*Dear Sir:*

We enlose herewith statement of your account, which is now twenty days overdue. We shall appreciate an immediate remittance.

Yours very truly,

WARDWELL MANUFACTURING CO.

If this letter does not bring in the desired remittance, ten days later—or sixty days from the date of purchase and thirty days after the due date of the account—a third

letter and statement are sent to the delinquent customer. This letter is concise and to the point, and reads as follows:

NEW YORK, July 5, 1913.

MR. MILTON A. HARLOW,  
816 Euclid Avenue,  
Cleveland, Ohio.

*Dear Sir:*

As you will note from the enclosed statement, your account is now thirty days overdue. We do not wish to embarrass you in any way, but, if your remittance is not received by the 15th of this month, we shall be forced to place the account in the regular channels for collection.

Yours very truly,  
WARDWELL MANUFACTURING CO.

The "regular channels for collection" are in this case the concern's attorneys.

The whole series takes a very businesslike stand that the money is due and there is no reason it should not be asked for, without softening the request or using equivocation of any kind. The general results are satisfactory, as out of a total business of over \$1,000,000 a year, the average annual losses from bad debts do not exceed \$250.

### **Illustrative Letters—Third Series**

The following series of collection letters does not cloak nor conceal in any way the fact that money is due and that the concern wants it, any more than do the summary letters of the preceding series. In this case, however, most of the customers are fairly well known to the house, and the personal element is utilized to assist in the collection. The series, as will be recognized, would

not be suitable for use in many cases, but with a certain class of customers will be found very effective.

DETROIT, Mich., May 1, 1913.

MR. JAMES HARRIS,  
36 Lincoln Avenue,  
Milwaukee, Wis.

*Dear Mr. Harris:*

Our manager recently made a careful examination of accounts on our books and reported that the aggregate amount now outstanding is more than we are justified in carrying. It has therefore been determined that all past-due accounts must be brought up to date. A formal notice to this effect will be sent out in a few days.

Knowing that you are amply able to take care of the small balance of \$75 past due on your account, and not wishing you to be annoyed in any way in the matter, I am writing now to inquire if you cannot mail us a check for \$75 before the 10th.

If you can do this, it will be a personal favor to me, as I am to some extent held responsible for the condition of the accounts, and it will keep your name out of the past-due list on our books.

Trusting you will make a special effort in this instance, I remain

Yours very truly,

JOHN H. MARTIN,  
Cashier.

This letter is intended to give the debtor the impression that the cashier is taking a friendly interest in his welfare, and is conferring a favor in notifying him of the condition of his account, so that payment may be made and his credit be kept in gilt-edge shape. It is an easy, friendly tip; and the most sensitive customer should not take offense. At the same time the predominant feature is the fact that payment is desired.

If the first letter produces no results, a second letter follows at such interval as may be deemed advisable.

DETROIT, Mich., May 15, 1913.

MR. JAMES HARRIS,  
36 Lincoln Avenue,  
Milwaukee, Wis.

*Dear Sir:*

Your attention is called to the enclosed statement of your account. While the amount is not large, a remittance at the present time will be very acceptable to us, as we have several heavy obligations coming due on the 25th of the month, for which we must be prepared.

Ordinarily we should be glad to extend you longer credit, but the growth of our business has been so rapid that we need all the cash we can collect to keep pace with its demands, and your remittance will play its part.

We shall therefore rely on receiving the balance due on your account not later than the 25th inst.

Yours very truly,

STANLEY-HOWARD CO.

This letter is no stronger in itself than the first, but has the added strength of coming direct from the firm. The need of ready cash is its excuse for writing, and the letter is in much the same general tone as the first of the series. It may, however, be criticized on the ground that it is bad policy to disclose to customers the weakness of your own firm—supposing that such a weakness does in fact exist. This objection holds good as a rule; but such a letter as the above is intended for cases where the debtor is perfectly familiar with the standing of the firm to which he is indebted, and its object is to get the money from him without giving him offense.

If letter No. 2 does not result in a remittance or an explanation of why a remittance is not sent, another letter follows.



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DETROIT, Mich., June 1, 1913.

MR. JAMES HARRIS,  
36 Lincoln Avenue,  
Milwaukee, Wis.

*Dear Sir:*

Greatly to our surprise, we find it again necessary to call your attention to the balance due on your account. We feel that you must have overlooked the matter, as we know from experience your usual promptness of payment.

We wish to be entirely frank with you and assure you again that it is of the utmost importance that you give this matter immediate attention. As stated in our letter of the 15th, we need the money.

Remembering our pleasant relations in the past, we shall look with confidence to the receipt of your remittance on the 10th of this month.

Yours very truly,

STANLEY-HOWARD Co.

If this letter is not followed by a remittance or an explanation of some kind, something is wrong. As will be noted, the first three letters are an appeal, not a demand. They give the customer a chance to "save his face," if he will, and settle up the account without injury to his credit and with friendly feelings on both sides. If, however, he pays no attention to these courteous letters, it is time to change tactics and to state in a straightforward and unequivocal manner that the account must be settled. The following letter does this:

DETROIT, Mich., June 15, 1913.

MR. JAMES HARRIS,  
36 Lincoln Avenue,  
Milwaukee, Wis.

*Dear Sir:*

We have written you several times in reference to your overdue account, but have not received the courtesy of a reply. We do not understand your silence in the matter and must now insist upon your immediate attention. We shall expect you either to remit at once or to advise us if there is any reason why you should not or cannot do so.

Yours very truly,

STANLEY-HOWARD Co.

If this more peremptory letter does not produce results, the following letter may be used. Its suggestive discussion of legal proceedings is frequently effective.

DETROIT, Mich., June 25, 1913.

MR. JAMES HARRIS,  
36 Lincoln Avenue,  
Milwaukee, Wis.

*Dear Sir:*

We are forced to infer from your continued refusal to answer our letters that you would evade payment of your indebtedness to us if you could. You cannot. The amount is justly due us, and merely because we have been so considerate you must not imagine that we are going to let the matter drop, or that you can longer ignore it.

You may think that you are beyond the reach of the law, but this is a mistake; and, if you do not remit or write us at once, we will institute proceedings. This will add court costs to our claim, and, in addition, involve you in the injurious publicity of a suit.

We have no desire to misrepresent the matter in any way, but we really believe that if you fully understood how much this small claim will cost you if it is collected by legal procedure, and the injury to your credit which will surely result, you would forward the amount to us at once and thus avoid the necessity of a suit.

Yours very truly,

STANLEY-HOWARD Co.

If this letter is ignored, the following "final notice" may be used. Properly used it will prevent many a lawsuit. It is drawn up in legal form, supposedly by the attorney of the house, and should be written on legal paper or on the letterhead of the attorney. It is usually signed by somebody connected with the concern whose name is not known to the customer. Sometimes it is signed with the attorney's name, which must, of course, be done only with his consent. The notice, while masquerading as a legal document, is carefully drawn to avoid the statement of any facts not absolutely true, and, considering the circumstances under which it is used, can hardly be criticized.

## FINAL NOTICE BEFORE SUIT

Stanley-Howard Co.,	}
Plaintiff,	
vs.	
James Harris,	
Defendant.	

STATE OF MICHIGAN, } ss.:  
COUNTY OF WAYNE }

*To James Harris, Defendant:*

You will now take notice that the above-named plaintiff claims that you are indebted to him in the sum of \$75, and, although duly demanded, the same has not yet been paid nor any part thereof.

Now, ~~THEREFORE~~, unless you remit, or appear in person or by attorney at the offices of said plaintiff, 275 West Fort Street, Detroit, Michigan, in the County and State aforesaid, on or before the 15th day of July, A.D. 1913, at 3 o'clock in the afternoon of said day, and make payment to said plaintiff of said claim, with interest thereon, or provide for the adjustment thereof, suit will be brought forthwith for the total amount with interest, together with the costs and disbursements of action.

Dated at Detroit this 5th day of July, 1913.

THOMAS B. McCLELLAND,  
For the Plaintiff.

If this notice produces no results, the matter had better be placed at once in the hands of an attorney.

## CHAPTER XII

### COLLECTION LETTERS FOR INSTALMENT ACCOUNTS

#### **Handling Instalment Accounts**

There need be no hesitation in asking for money due on instalment accounts. In fact it should be asked for as pointedly as possible, and, speaking generally, payment should be insisted upon when payment is due. The small monthly payments are carried easily if collections are close, but if neglected they mount up rapidly and soon endanger the whole account.

Close collection for instalment accounts is not, however, an invariable rule. Each case requires the exercise of judgment and discretion. Frequently it is most difficult, and at times impossible, for the instalment purchaser to pay on the due date, and, if he is pushed too hard, the last resort of the instalment house—the seizure of the goods—may be reached before it is really necessary.

In the consideration of instalment collections it must be remembered that there is much less danger of final loss on instalment purchases than is the case in ordinary collections. Such purchases are almost invariably made under contracts of conditional sale; and the security of the purchase itself is behind them. For this reason the collection manager of instalment accounts has much greater freedom of discretion than is usually the case.

He must, however, always remember that it is bad business to seize instalment goods if it can possibly be

avoided. The house is supposedly in business to make money by selling goods, not by forfeiting payments; and, while there may be a profit to the house in seizures after material payments have been made, the effect of the practice on other customers, and its general unfairness, will inevitably react on and injure the instalment house. For this, if for no other reason, every effort should be made to secure payment, and goods once sold should not be taken back save as a last resort.

In the collection of instalment accounts, pressure of every kind is brought upon the delinquent to enforce payment—far more than in the case of ordinary collections. This is due to the fact that from the practical standpoint either the account must be collected, or, where the contract is forfeitable, the goods be taken back; and it is bad business to take the goods back. Appeal, argument, persuasion and anything else that may influence the purchaser are therefore resorted to before the collector allows himself to despair of success.

### **Conditions of Instalment Collections**

In some cases the instalment purchaser tires of his purchase and finds the recurring burden of the payments too onerous to carry for something which he has ceased to value. At other times the articles purchased are lost, stolen or destroyed, and the instalment purchaser is quite willing for the concern to bear the loss if he can shift it. In other cases it is a financial impossibility for the purchaser to make the payments. To meet these varying conditions and the many others that arise in instalment work requires much ability and ingenuity on the part of the collection manager.

Where the purchaser has tired of the goods, they must really be sold afresh, and this requires a combination of persuasiveness and tactful bullying. Where the purchaser is unable to pay, the goods must either be taken back or the account be carried over until the party is again in funds. Where the goods have been lost, stolen or destroyed, insistence, persuasion, and a painting large of the possible results of failure to pay, must be relied upon to bring payments from the reluctant purchaser.

There is perhaps in instalment work more scope for the exercise of tact, strategy, a knowledge of human nature, skilful letter-writing, and general ability than in any other line of collection.

### **Instalment Notices**

In the instalment business, notices of payments coming due take the place of the statement of account in ordinary lines. The notices which follow are sent out at such intervals as the policy of the particular house may determine. In the examples given they are sent at intervals of a little less than two weeks. The first notice goes out in advance of the due date of payment, and it and the succeeding notices of the series are numbered to give them a more formal appearance.

#### *Notice No. 1.*

CHICAGO, Ill., May 13, 1913.

Your payment of \$7.50 on instalment contract falls due at this office May 15, 1913.

Respectfully,

CHICAGO FURNITURE HOUSE.

To JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

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If payment is not made within the next ten days, a notice of delinquency is sent as follows:

### *Notice No. 2.*

CHICAGO, Ill., May 24, 1913.

Your payment of \$7.50 on instalment contract fell due at this office May 15, 1913. Please send in your payment at once.

Respectfully,

CHICAGO FURNITURE HOUSE.

To JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

If this notice produces no effect, notice No. 3 goes out, as follows:

### *Notice No. 3.*

CHICAGO, Ill., June 4, 1913.

Two notices have been sent you in regard to the payment due on your instalment contract. These notices may not have reached you. We therefore send you this present formal notice that your payment of \$7.50 fell due May 15, 1913, and is now unpaid. *Please give this your prompt attention.*

Respectfully,

CHICAGO FURNITURE HOUSE.

To JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

If no attention is paid to these notices, it is time to place the matter—if a city collection—in the hands of a collector. If an outside collection, the matter must be followed up by means of letters.

### **Instalment Collection Letters**

The following letters take up the preceding account at the point to which it was carried by the statements. The first letter is sent about the 15th of the month, when a second payment is coming due.

CHICAGO, Ill., June 15, 1913.

MR. JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

*Dear Sir:*

In looking over the accounts on our books, I find that two payments of \$7.50 each—\$15 in all—are now due and payable on your account with us for furniture. In view of the very liberal terms of payment extended to you in this matter, I must insist upon your monthly payments being made regularly. When I tell you that we have nearly 10,000 such accounts on our books, you will readily appreciate the enormous amount tied up in this manner, and the importance of payments being made promptly.

Your monthly payments of \$7.50 each are very small compared with the total of your account, and we are not unreasonable in insisting upon its payment in accordance with your agreement.

Within the next few days I shall expect to receive your remittance covering the balance of \$15 due to date. I trust that hereafter your payments will be made as they become due.

Yours very truly,

HENRY ALSTON,  
Manager Collection Dept.

If a remittance is not received, this letter is followed in due time by a second, as follows:

CHICAGO, Ill., June 25, 1913.

MR. JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

*Dear Sir:*

Some ten days since I wrote you in regard to payments now due on your account, amounting to \$15. I regret to find that you have completely ignored this letter, and I am writing now to find out why this is so, and also to remind you that we cannot carry your account on the books indefinitely.

We have been very lenient with you in this matter, and we now feel that the time has come to insist upon the settlement of all overdue payments. We shall expect you to arrange for this at once and shall look for your remittance by return mail.

*The matter must receive your immediate attention.*

Yours very truly,

HENRY ALSTON,  
Manager Collection Dept.



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If this letter does not bring a reply of some kind, the following letter may be more effective:

CHICAGO, Ill., July 5, 1913.

MR. JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

*Dear Sir:*

I have written you twice in reference to the overdue payments on your account, amounting to \$15. You have ignored my letters and you have not made any provision for your indebtedness. I must now insist on immediate settlement of the account to date.

Unless you forward your check by return mail for amount now due and payable, or otherwise write us fixing a definite date when you can remit, we shall draw upon you at sight for the amount due us.

Yours very truly,

HENRY ALSTON,  
Manager Collection Dept.

If no response is received to this letter, a draft should be drawn. A letter may be sent at this time notifying the purchaser that this has been done. This letter is not, however, strictly necessary, and should only be used where it will help to secure payment of the draft.

If the draft is returned unpaid and without explanation of why it is not paid, the following letter may be used:

CHICAGO, Ill., July 15, 1913.

MR. JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

*Dear Sir:*

Please take notice that our draft, drawn upon you through the Hamilton National Bank for the amount of \$15, has been returned to us dishonored.

This draft was drawn upon you for money due us on account of furniture—furniture which you have had and now have and are using daily. Is it courteous to ignore our draft and our letters, as you have done? Is it fair or honorable to keep from us money which is ours—money which is due—money for which you have had value received?

I do not like to proceed to extremes in the matter. I do not believe it would be necessary if you really appreciated the fact that

you are keeping from us something that is ours. There is now due \$22.50. Why not send us a check for the amount and clean the matter up?

Do not let the matter drag. Write me to-day and let me know exactly what you can do.

Yours very truly,  
HENRY ALSTON,  
Manager Collection Dept.

If the purchaser pays no attention to this letter, the matter is one for serious consideration. Shall the goods be recovered, or shall continued efforts be made for collection? If it is decided that the goods had better be recovered, the following "last chance" letter may be used:

CHICAGO, Ill., July 20, 1913.

MR. JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

*Dear Sir:*

I have as yet received no reply to my letter of the 15th, and must therefore again call attention to the very unsatisfactory condition of your account.

Your monthly payments and the terms of your lease were made exceptionally easy. Notwithstanding this, we find you are at the present time \$22.50 in arrears and you have paid no attention to our letters requesting payment.

In view of the foregoing facts, we are forced to notify you that unless you pay the amount now overdue on your contract on or before July 25, 1913, or otherwise call in before that date, we shall conclude that you are unable to pay for the furniture and shall send for the same.

It is important that you give the matter your immediate attention.

Yours very truly,  
HENRY ALSTON,  
Manager Collection Dept.

If this letter produces no result, it is time for action. When the goods are in the same city, a driver should be sent round with an order for the goods, and instructions to secure them if possible. If the purchaser surrenders

the goods, they are brought back and put into stock for resale, and the transaction is closed. If, however, the purchaser refuses to give them up, a collector should call and serve a written demand on the customer for the return of the goods, and get possession of them if he can. If the goods are outside of the city, this written demand for them may be sent by registered mail, or it may be placed in the hands of a local attorney, who will serve it, and secure possession of the goods.

The written demand is effective in many cases which are not responsive to any other appeal or argument, and either brings the customer to the store or secures the return of the goods. A form of written demand is as follows:

To JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

Formal demand is hereby made on you for the return to us of (description of furniture or other goods follows here) now in your possession and belonging to us, on account of the non-payment of the amount due on your contract for the purchase thereof, and because of your non-compliance with the terms and conditions of the contract concerning the same, and you are hereby requested and directed to deliver the said furniture to the bearer hereof for our account.

CHICAGO, Ill.,

CHICAGO FURNITURE HOUSE,

By Henry Alston,

July 25, 1913.

Manager Collection Dept.

The goods are, of course, taken back only where the account is uncollectible and it is considered better to have the goods than the outstanding account. Where it is believed that the account can be collected, or where for other reasons it is not desirable to take possession of the goods, the "demand for return of goods" and the preceding letter would be replaced by the following letter:

CHICAGO, Ill., July 25, 1913.

MR. JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

*Dear Sir:*

I am surprised and disappointed that you have paid no attention to my draft or my letters. Payments aggregating \$22.50 are now due, and I must insist on an IMMEDIATE SETTLEMENT of same. By promptly complying with this request—which you must admit is reasonable—you will be saved expense and embarrassment and obviate the disagreeable necessity on our part of adopting legal measures to secure payment.

Anticipating your prompt response, I remain

Yours very truly,

HENRY ALSTON,  
Manager Collection Dept.

If for the sake of effect a more discursive letter is desired, the following form may be used:

CHICAGO, Ill., July 25, 1913.

MR. JOHN WAGNER,  
156 Chelsea Street,  
Springfield, Ill.

*Dear Sir:*

You have seen fit to ignore our draft and our letters. The draft, as I wrote you, was returned unpaid, and the costs of presentation have been added to your indebtedness.

We dislike to involve you in further costs and embarrassment, but your own neglect of the matter leaves us no alternative, and we are obliged to advise you that unless you remit at once the sum of \$22.50 to cover the payments now overdue on your account, we shall bring suit against you to secure our claim.

Bear in mind that if this is done, the resulting costs, which must be paid by you, and the trouble and embarrassment which will be suffered by you, are entirely due to your failure to fulfill an agreement which was entered into in good faith.

Yours very truly,

HENRY ALSTON,  
Manager Collection Dept.

If the letter suggesting legal procedure is ineffective, a follow-up letter, either fixing a date when legal proceedings will be begun, or elaborating more fully on the

expenses and trouble incident to suit, may produce results. The following letters are of this nature. The proper one to be used is a matter of discretion.

*Dear Sir:*

Having received no reply to our recent letter, we are forced to believe that we must proceed to extreme measures for the collection of the money you owe us. Now, therefore, take notice that, unless we receive the sum of \$22.50—the amount now due us—on or before the 10th of the month, we shall place the account in the hands of our attorney in your city for collection.

If we are obliged to resort to legal measures to effect the settlement, you need expect no further consideration or leniency of any kind. We await your action.

Yours very truly,

.....

*Dear Sir:*

Although you have ignored our recent letters and refused our draft, we wish to give you one more opportunity to settle your account before we proceed to extreme legal measures.

Do you appreciate how much discredit and dishonor falls upon anyone who must be forced to meet his legitimate business obligations by a court decision?

Do you know how much his standing and responsibility in his community is impaired?

Do you realize how injurious a judgment is, both from a business and a personal standpoint? Your credit will be impaired. You will find it difficult to get a position of responsibility, and impossible to get a bond from a bonding company if you do.

For these reasons we sincerely trust you will settle your account without this discrediting and disastrous publicity.

If, however, you continue to disregard the obligations of your contract, there can be no alternative. We will allow you ten days' time in which to make your choice and advise us of your decision. If we do not hear from you within that time, your claim must pass through the regular channels.

Yours very truly,

.....

The next letter, making a final appeal to the debtor, is registered. This gives added weight to the letter, and also determines beyond doubt its receipt by the debtor.

*Dear Sir:*

We are forced to the conclusion that you will not voluntarily pay us the amount due on your contract. We therefore give you formal notice that, unless we hear from you within fifteen days from the date hereof, we will instruct our attorney in your city to bring suit for the balance of our claim, amounting to \$——.

Yours very truly,

.....

### **Non-Forfeitable Contracts**

The preceding letters are for the most part equally applicable to forfeitable or non-forfeitable instalment contracts. If the contract is forfeitable, the next step would be either to declare the contract forfeited and take possession of the goods, or else, where the amount and the conditions justify, to place it in the hands of a collector for personal treatment. Under a non-forfeitable contract, or a contract in which the consideration received by the purchaser cannot be taken from him, or where the consideration is of such a nature that it is not advisable to take it from him, other methods must be adopted.

The following letters, which have proved very effective in practice, may be adapted to any non-forfeitable contract:

WARFIELD CORRESPONDENCE SCHOOLS,  
185 Seneca Avenue.

DETROIT, Mich., June 1, 1913.

MR. HENRY P. WILSON,  
67 Front Street,  
Milwaukee, Wis.

*Dear Sir:*

You have already received formal notice of suit which we are about to bring against you through our attorney at Milwaukee. This suit, calling for the amount due as per the enclosed statement, is based upon a definite contract entered into in good faith—a contract which has been fulfilled on our part to the letter, in issuing you a guaranteed, non-forfeitable scholarship, in supplying you with lessons and instruc-

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tions for a considerable portion of the course, and in holding ourselves ready at any time to supply you with the unconsumed balance.

We regret that we have been compelled to take this action, and firmly believe that if you realized what it means to you—court costs, the loss of time, inconvenience, discredit and financial embarrassment—you would make some arrangement for a friendly settlement.

If necessary, we will agree to some adjustment of the payments that will make them easier for you, but we must insist upon something being done at once. If we hear from you by return mail with any reasonable suggestions as to payment, we will instruct our attorney to withhold suit until the matter can be adjusted, but, if otherwise, our instructions are to proceed at once.

Yours very truly,  
JOHN H. MANSON,  
Collection Manager.

If this letter produces no results, the following official letter may be tried before suit is begun:

WARFIELD CORRESPONDENCE SCHOOLS,  
185 Seneca Avenue.

DETROIT, Mich., June 11, 1913.

MR. HENRY P. WILSON,  
67 Front Street,  
Milwaukee, Wis.

Dear Sir:

Mr. Manson, our collection manager, has just called my attention to your account showing a balance of \$24 due us, and has also handed me copies of his recent letters.

I will frankly admit that Mr. Manson has been rather urgent in his appeals to you for payment, and I am therefore writing you personally before I allow our attorney to commence action.

Can we not arrange matters on a friendly basis—say a payment of \$3 a month until the balance against you is liquidated? I realize that it might inconvenience you to pay the whole amount at once, but this small monthly payment could hardly embarrass you.

Please write me personally, stating what amount you will pay per month and upon what date, so that I can give proper instructions to our collection department.

I trust you will write me at once.

Sincerely yours,  
HENRY WARFIELD,  
President.

Where an instalment purchaser replies, no matter what the tenor of his response, there is always hope for the account. If the account has not been paid because of some fault on the part of the instalment concern, the trouble should be promptly adjusted. If something else is wrong, the method of attack must be determined by the conditions.

If an instalment purchaser pays no attention to correspondence, to drafts, to threats of legal procedure, there is but little more to be done unless the account can be placed in the hands of a collector for personal effort. If this is not feasible, a seizure of the property, or, in case of non-forfeitable contract, suit, is practically the only alternative.



## CHAPTER XIII

### COLLECTION LETTERS FOR PROFESSIONAL ACCOUNTS

#### **Professional Credits**

The accounts considered in this chapter are those of the doctor, the lawyer, and other callings in which similar conditions are found.

The lawyer is supposed to extend credit on a purely business basis. He may charge cash in advance, or may absolutely refuse to undertake a cause. He is usually under no compulsion to extend credit. His collection problems are therefore comparatively simple. The physician, on the other hand, cannot, speaking generally, refuse calls for professional assistance. If men are sick or wounded, it is his duty to relieve their sufferings as far as it is within his power; and the financial consideration is supposed to be secondary. Professional ethics do not always carry the physician as far as this, but it is a fact that the question of credits is largely beyond his control. His collection problems are, as a natural result, difficult and troublesome.

#### **Physicians' Accounts**

Extending credit so freely as he does, the physician must necessarily accumulate many bad accounts—accounts that are absolutely uncollectible and really might as well be written off the books before they are brought on. He also brings many poor accounts on to his books from which

something may be derived by careful watching, but which rarely if ever yield their face value. Many other accounts are worth their full value if they are properly taken care of, and still others—for the solace of the physician—are gilt-edge accounts upon which he can depend almost as absolutely as if the cash were in his hands.

The fact that the physician's patients are his friends adds to the perplexities of his collections. He knows each one of his patients—usually more or less intimately—and it is difficult, if not impossible, for him to press these friends for payment as he might if they were strangers.

Also, the importance of keeping his "customers" is greater for the physician than for the tradesman. The physician cannot advertise as the tradesman does. It is a slow and painful process to build up his practice, and every patient gained is a continuing, and usually a considerable, asset. The loss of even a single good patient is therefore somewhat in the nature of a calamity; and the physician's clientèle must be handled tenderly.

Because of these conditions, and because physicians are frequently unbusinesslike in their habits, their collections are apt to lag. Accounts ordinarily run for months and not infrequently for years—sometimes, indeed, for many years—before they are actually settled up. Whether this somewhat extreme indulgence is really necessary is for the physician to judge. He knows the financial condition of his patients, knows how strong his hold is upon them, knows what they can and should pay; and, if he does not get what is coming to him, it is his own fault.

Just how closely the physician should collect and just how direct his requests for money should be, is for the

individual to decide. Where a doctor stands high and has a strong hold on his patients, he may collect as closely as he chooses, and, as soon as his patients become accustomed to his methods, they will fall in line without a murmur. It is but seldom, however, that the physician adopts the practice of close collections.

Collection methods in the country and city will, of necessity, differ. The country doctor depends largely upon personal collection of his accounts. In his rounds it is a simple matter for him to ask the head of the household—or whoever holds the purse-strings—in a friendly way that cannot possibly give offense, if something cannot be paid on account, citing any one of a dozen reasons to soften the request and make it seem an entirely incidental matter. If the patients are able to pay, it is difficult for them to refuse; and in such cases they usually pay—with as good grace as may be—the smallest amount they think the proprieties will permit.

With the city doctor, and those of the larger towns, personal collections are not always feasible; and it is here that the statement and the collection letter are more important and more frequently used.

Physicians in the larger cities usually render monthly bills. In the country they frequently render bills only when they need money. Between times both creditor and debtor rock along in the friendliest fashion without the question of money coming up at all.

Where collections are not made personally, the statement is the physician's mainstay. With good customers these go out month after month without comment, save perhaps an occasional mild endorsement on the bill, "Please Remit." Patients who are good pay send in at

their convenience. They may take their time to send in, but they do send in. Others who are good, or fairly good, are frequently careless and need some little urging.

In the physician's collection letter the personal element enters largely. His patients, as stated, are usually his friends, and he cannot write them as otherwise he might do. On the other hand, while he cannot usually press for payment, his letters are apt to be much more effective than those of the business man, because of the personal relations of doctor and patient. The patient may give no attention to the doctor's first letter requesting payment—in fact, he may let several such letters pass by unheeded. There is, however, always latent in his mind the conviction that at some future time he may need the doctor again and need him badly; and sooner or later this results in a payment. The patient who can completely ignore his doctor's collection letters and then come to him again for professional treatment without payment or promise of payment, must be a hard case indeed.

In the ordinary collection letter it is frequently inadvisable to plead the need of money as a reason for asking payment. The physician need not hesitate to allege this condition. Professional men are—or used to be before the present high cost of living obtained—proverbially impecunious. Also, from the patient's point of view, it makes but little difference—save in fashionable circles—whether his doctor is financially "well fixed" or the reverse. The prime requisite is professional ability, and so long as the doctor can cure his physical ailments, the patient does not care whether he comes for the purpose in an automobile, in a "one-horse shay," or afoot. Therefore, the need of money—which is the most con-

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venient excuse for asking payment—is freely open to the physician.

The following letters are adapted for an account that is not much overdue:

LOUISVILLE, Ky., June 1, 1913.

MR. ROBERT L. MONTFORT,  
318 Seventh Street,  
Louisville, Ky.

*Dear Mr. Montfort:*

My monthly bills fall due tomorrow and are unusually heavy. I find I am a little short on the amount required to meet them. Can you let me have \$25, to reach me not later than tomorrow? If so, I shall greatly appreciate your kindness.

Yours very truly,  
JOHN H. MORTON.

Another form of letter is as follows:

*Dear Mr. Harris:*

As you probably know, I am always short of money, but I find myself a little unusually hard pressed just at present. Can you let me have \$25 or \$30 on account? If so, it will help me out nicely and I shall appreciate your kindness.

Yours very truly,  
.....

In the following letter the request for money is made a little more pointedly:

*Dear Mr. French:*

Can you let me have \$25 or \$30 on account? I am, as usual, in need of money and have to look to my friends for help.

Yours very truly,  
.....

Another form is given below:

*Dear Mr. Willis:*

I am badly in need of money. Can you let me have \$25 or \$30 on account not later than tomorrow? An answer by bearer will be greatly appreciated.

Yours very truly,  
.....

A more picturesque letter is as follows:

*Dear Mr. Howland:*

I am apprehensive of trouble and turn to you for help. My wife has purchased a new spring outfit and the bill comes in tomorrow; and, with the inconsequential financial recklessness of the sex, she has promised it will be paid at once. She says this is economical because she secured a material reduction for cash. This may be true, but it leaves me to meet the bill. Can you help me out?

A check for \$25 or \$30 would be a "very present help in time of trouble."

.....

Another form of letter is as follows:

*Dear Mrs. Farnsworth:*

Unless my exchequer is replenished very shortly, the "bairns" will be going barefoot, not to mention more direful possibilities. Can you relieve my necessities? Twenty-five or thirty dollars could not be better applied.

Yours very sincerely,

.....

Other forms follow:

*Dear Mr. Clark:*

I am unexpectedly called to Cincinnati for a consultation and find myself a little short of funds. Can you let me have \$50 on account? If so, please send it to me by bearer and greatly oblige

Yours very truly,

.....

*Dear Mrs. Wilson:*

I wonder if you cannot let me have \$35 or \$40 on account. I have some very heavy bills to meet within the next few days, and it is going to tax my resources to raise the money. For this reason I shall appreciate a remittance greatly.

Yours very truly,

.....

*Dear Mrs. Johnson:*

The butcher, the baker, the candlestick maker and several other individuals of similar tendencies are after me with bills, and I lack the wherewithal to silence their importunities. Can you let me have \$75 or \$80 on account? If you will do this, it will be an appreciated kindness.

Yours very truly,

.....

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*Dear Mrs. Hughes:*

As you know, I am chronically hard up, but at the present time I am a little harder up than usual. Can you not make a payment of \$25 or \$30 on account? If you can, it will be quite a help.

Yours very truly,

.....

*Dear Mrs. Brooks:*

You were kind enough to let me have a payment on account last month, and I should not come to you again so soon were it not for a recent disaster at our house—not remotely connected with our dining-room maid and Mrs. Warfield's best dinner-set—which is too much for the present condition of my exchequer. Even a small remittance will be appreciated, and I sincerely trust you can come to my relief.

Very sincerely,

.....

When letters such as these fail to produce results, the matter becomes puzzling. A doctor does not wish to offend his patients, nor does he wish to lose his money, nor to wait for it indefinitely. On the other hand, it is obvious that a patient who does not pay at all is not worth keeping, and the sooner he is offended and transfers his unlucrative practice to some other physician, the better. As long, however, as there is hope of financial return, the patient is to be handled carefully. The following letters, while somewhat more urgent than those already given, should not be offensive:

LOUISVILLE, Ky., July 2, 1913.

MR. ROBERT L. MONTFORT,  
316 Seventh Street,  
Louisville, Ky.

*Dear Mr. Montfort:*

The last time I needed money I asked you to help me out, but you were, I presume, unable to do so at that time. I have struck another hard place and come to you again. Can you let me have \$30 to tide over? If so, you will be a friend indeed.

Yours very truly,

.....

*Dear Mr. Harris:*

I am badly in need of money, and in looking over my accounts I see you have not made me a payment for a very considerable period. Can you not let me have \$25 or \$30 within the next day or two? If you can, it will be quite an accommodation.

Yours very truly,

.....

---

*Dear Mr. Alexander:*

I am sorry to come to you again for money, but you will remember the last time I wrote you were unable to pay anything on account, and I am therefore hoping that you will be able to do something now. Please drop me a note and let me know what you can do, or, better still, send me a check.

Yours very truly,

.....

---

*My Dear Mr. Jones:*

I wrote you a month or two ago to see if you could not make me a payment on account, but the markets were then going the wrong way and you were unable to come to my assistance. I am again in "straitened circumstances," but this time am glad to note that the markets are buoyant. Can you square up with me to the extent of \$75, or even \$50 if the wave of prosperity has not really reached you yet? It is a case where every little helps.

Yours very truly,

.....

---

*Dear Mrs. Andrews:*

When I wrote you last month for a payment on account, you said you would certainly let me have \$30 or \$40 this month. When may I expect your check? I have several obligations coming due within the next few days and should be glad to have your remittance, if possible, to help meet them.

Yours very truly,

.....

---

*Dear Mr. Rollins:*

When I wrote you in January you were unable to let me have a payment on account, but thought you could within a month or two. I sincerely trust you are now in a position to do this, as a remittance could not come in at a better time.

Can you not let me have a check for the amount due—\$70?

Yours very truly,

.....



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*Dear Mrs. French:*

I dislike to annoy you by repeated requests for money, but, as you know, the demands on a physician are many and cannot be avoided. I should, therefore, greatly appreciate a remittance. Even so small an amount as \$40 would be very acceptable.

Yours very truly,

.....

---

*Dear Mrs. Wilson:*

I am again needing money and come to you for help. Would it be too much of a strain for you to pay the entire balance now due—\$65? I should like to get this full amount if you can possibly spare it, but, if not, send what you can.

Yours very truly,

.....

---

*Dear Madam:*

It is always unpleasant to ask for money, and I am sorry to write you again, but have heard nothing from my last letter. The balance on your account is small. Can you not send me a check for the entire amount?

Yours very truly,

.....

If friendly letters are ignored or bring no response, it is for the physician to decide the next step. If the patient is at all desirable he can continue writing pleasant letters from time to time until payment is made, or he can pay a friendly visit and do some collecting "on the side"; or, if he can find a tactful collector, he can put the account in this collector's hands.

If, however, he does not think this is worth while, he can write more insistent letters, or turn the account over to a collector, regardless of whether this collector is tactful or otherwise, or put it in the hands of an attorney for collection, or do all of these.

His letters at this stage will differ but little from other collection letters. The excuses for writing are usually

dropped and the letters merely demand payment of the account. The following letters are of this general nature:

*Dear Madam:*

Your account is long overdue. I have written you several times asking for payment, but have not pressed the matter. I must now insist upon payment and shall expect to receive a remittance from you by return mail.

Yours very truly,

.....

*Dear Sir:*

For some reason you have seen fit to ignore my letters asking for a settlement of your account. Your conduct in the matter has been both discourteous and unbusinesslike, and I must insist upon an immediate settlement. I should be sorry to proceed to extremes, but if I do not hear from you by the 10th, I shall place the account in the hands of my attorneys for collection.

Yours very truly,

.....

*Dear Sir:*

The amount of \$30 due me on your account has been dragging along for nearly a year and I have received nothing but promises of payment. I cannot wait longer. Unless you remit by return mail, or fix a date in the near future on which you will remit, I shall be forced to proceed to extreme measures.

Yours very truly,

.....

*Dear Sir:*

You have promised several times to pay your account in part at least, but up to the present time have done nothing else but promise. The account is long overdue and I am tired of waiting. You must either remit by return mail or I will place the matter in the hands of my attorney.

Yours very truly,

.....

*Dear Sir:*

The amount of \$30 for professional services has been due for over a year. Your many promises of payment have failed entirely. I do not see any reason why I should wait longer, and, unless you send me at least a part of the amount due before the end of the week, I shall place the matter in the hands of my attorney.

Trusting you will not force me to this disagreeable alternative, I remain

Yours very truly,

.....

**Lawyers' Accounts**

The collection problems of the attorney are comparatively simple. As already stated, his credits are within his own discretion. He usually knows whom he is trusting, and either secures enough in advance as a retainer to make himself fairly safe, or knows that the account is good, or at least thinks the prospect is good enough to justify his taking a chance.

In any event, he does not devote much time to collection letters. What letters he writes are usually to the point and are frequently summary. The accounts are already "in the hands of an attorney," and the creditors usually realize this fact, and, unless they are execution proof, comport themselves accordingly.

Attorneys usually receive a retainer at the time they undertake business, and, in addition, have an understanding as to when payments are to be made, and then hold their clients to the agreement. Where there is no understanding, bills are sent at the time the work is completed, or, where the work is continuing or long-drawn out, from time to time as the attorney thinks proper.

In a few cases where attorneys write collection letters, they are, as stated, simple and to the point. The following will serve as examples:

NEW YORK, June 15, 1913.

MR. HENRY SMITH,  
95 Broad Street,  
New York City.

*Dear Sir:*

There is a balance due on your account of \$75, which we should be glad to have settled. Will you kindly send us a check for the amount?

Yours very truly,

WESTCOTT & BURLINGAME.

Presumably this brings the desired remittance or some response. If not, the following letter might be sent:

NEW YORK, June 22, 1913.

MR. HENRY SMITH,  
95 Broad Street,  
New York City.

*Dear Sir:*

We wrote you on the 15th asking for a settlement of your account, but have heard nothing from you. Will you kindly send us your check by return mail or advise us if there is any reason that prevents your so doing?

Yours very truly,

.....

If no response is received to this letter, the "guilty party" is probably called up on the telephone and a very pointed conversation ensues. If for any reason this is not desirable, the following letter might be written:

NEW YORK, June 25, 1913.

MR. HENRY SMITH,  
95 Broad Street,  
New York City.

*Dear Sir:*

We have not been favored with a reply to either our letter of the 15th or the preceding letter of the 22d, nor have we had the remittance in settlement of our account asked for. If we do not hear from you by the 27th, we shall bring suit for the amount.

Yours very truly,

WESTCOTT & BURLINGAME.

If this does not produce the desired results, the first papers of a suit should be drawn and served upon the delinquent debtor. This will add costs to the amount of the attorney's bills; and, unless the debtor is entirely collection proof, he will not let the matter go so far. If he is collection proof, the attorneys should have known

this fact before they took the case, and they should either have secured a sufficient retainer to cover the whole matter, or have clearly recognized the fact that they were taking chances. In this latter case they have no cause of complaint if they are unable to collect.

## CHAPTER XIV

### COLLECTION LETTERS—MISCELLANEOUS

#### **Reports on Deposited Drafts**

In connection with collections, sundry letters which are not directly collection letters will be found necessary. For instance, a draft on an out-of-town debtor may have been deposited for collection. At times such drafts, as already explained, are very unreasonably delayed, and it becomes necessary to write the bank to find out the cause. The following letter is suitable for this purpose:

June 15, 1913.

HAMILTON NATIONAL BANK,  
61 Wall Street,  
New York City.

*Gentlemen:*

May 23d we deposited with you for collection our sight draft for \$125 on John C. Harrison, 63 State Street, Chicago, Ill. Will you kindly advise us if this draft has been paid, and, if not, ascertain the cause of the delay?

Yours very truly,

.....

Or, more briefly—

*Gentlemen:*

Will you please advise us if our draft on John C. Harrison, 63 State Street, Chicago, Ill., for \$125, dated May 23, 1913, has been paid?

Yours very truly,

.....

It is but seldom that the bank fails to report a draft that has been paid. Hence, the presumption is, when a report is not made, that the draft has not been collected,

or at any rate that the returns have not been received by the bank with which the draft was originally deposited. The letter might, therefore, take this ground at once and read as follows:

*Gentlemen:*

Will you kindly trace our draft for \$125 on John C. Harrison, 63 State Street, Chicago, Ill., which was deposited with you for collection May 23, 1913?

Yours very truly,

.....

### **Letters to Collection Agencies**

When an account is placed for collection with an attorney or a collection agency, it must be accompanied by an explanatory letter. This letter should give all the essential details of the account, and should also specify whether or not suit is to be brought in case collection cannot be made in any other way. The following are letters of this kind:

June 2, 1913.

MERCANTILE COLLECTION AGENCY,  
251 Fifth Avenue,  
New York City.

*Gentlemen:*

We are enclosing statement of account against Robert H. McClelland for \$135.60, now nearly six months overdue. We have written Mr. McClelland repeatedly; but, beyond a few promises to pay, which were not carried out, he has given no attention to the matter. Our draft on him was returned unpaid.

Please see what you can do with the claim, but do not bring suit if it can be collected in any other way, and not until after we have given you specific instructions to this effect.

Yours very truly,

.....

The statement sent with this letter gives the necessary details as to the goods purchased, and it is not usually necessary to bring these into the letter.

June 3, 1913.

MERCANTILE COLLECTION AGENCY,  
251 Fifth Avenue,  
New York City.

*Gentlemen:*

We enclose herewith statement for \$75 due us from James L. McFarland, of Philadelphia. We place this in your hands for collection, but do not wish you to bring suit. If you find that the account cannot be collected without suit, please advise us and let the matter drop.

Yours very truly,

.....

June 5, 1913.

MERCANTILE COLLECTION AGENCY,  
251 Fifth Avenue,  
New York City.

*Gentlemen:*

We enclose herewith account for \$132 due us from Henry Sampson, of 32 Broad Street, New York City. Collect this, if you can, without suit, but do not hesitate to bring suit if you find it necessary.

Your very truly,

.....

June 6, 1913.

MERCANTILE COLLECTION AGENCY,  
251 Fifth Avenue,  
New York City.

*Gentlemen:*

Enclosed you will find invoice for bill of goods purchased by Herman J. Frenckel, of Chicago, January 15, 1913. These goods were sold on ninety days' time, and the account is not seriously overdue. At the same time, it should have been paid on its due date; and, as Mr. Frenckel has paid no attention to our letters in regard to the matter and has returned our draft unpaid, we do not care to let the matter run or to show Mr. Frenckel any further consideration. If, therefore, he will not pay on presentation, bring suit at once.

Yours very truly,

.....

### **Letters to Collection Agencies**

When a claim is placed in the hands of an attorney, the letter which accompanies it will not vary materially from those sent to a collection agency, though in the case



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of an attorney it may be well to state the source from which his name was secured; *i. e.*, if it was found in a legal directory or lawyers' list, or if he was recommended by some responsible party, this fact might be mentioned as tending to secure better attention for the claim than would otherwise be the case.

MR. HENRY LANSTON,  
316 Chestnut Street,  
Philadelphia, Pa.

*Dear Sir:*

Please find enclosed statement of \$725 due us from Samuel E. Frankelstein, 317 Market Street, your city. The account is at least ninety days overdue, and Mr. Frankelstein pays no attention to our letters.

Please use your best efforts to collect the account, but do not bring suit. We think Mr. Frankelstein is good for the amount, and presumably a strong presentation of the matter will be sufficient.

Yours very truly,

.....

MR. HARRY FRASER,  
315 Carondelet Street,  
New Orleans, La.

*Dear Sir:*

Mr. William H. Johnson, of the Third National Bank of this city, has referred me to you as a responsible attorney in whose hands I can safely place any business I may have in New Orleans.

I am therefore enclosing herewith statement of account against Mr. Walter Gaspard, of 316 Canal Street, for the sum of \$325. This account is ninety days overdue, and Mr. Gaspard pays no attention to letters or to drafts.

Will you kindly give the matter your best attention and secure the money if possible? If you find it necessary, the matter will have to be brought to suit, but I am somewhat reluctant to proceed to such extremes, as I have done business with Mr. Gaspard for a number of years, and do not wish to press him too severely if it can be avoided.

Please advise me before bringing suit, if you find suit is necessary.

Yours very truly,

.....

MR. WILLARD JONES,  
Fresno, Cal.

*Dear Sir:*

Please find enclosed statement of account against Harold J. Varado, of your city, for \$90. You will find the details of the account on the statement. The matter has been dragging for nearly six months, and I will thank you to give it prompt attention.

If Mr. Varado will not pay without, I wish suit to be brought, but would ask you to advise me before this is done.

I find you listed in Martindale's Legal Directory as a reliable attorney making a specialty of collections, and this has led me to place the present matter in your hands.

Yours very truly,

.....

MR. JAMES DILLER,  
618 Main Street,  
Dallas, Tex.

*Dear Sir:*

I enclose herewith details of a claim I hold against Joseph S. Francisco, of 741 Elm Street, Dallas, for \$975.25. Full details of the claim are given in the enclosed statement. Some items of the claim are disputed, and this has kept the whole matter dragging for several years. I do not wish to let it run longer, and will therefore ask you to take the matter up and adjust it if possible.

If Mr. Francisco will pay the undisputed part of the claim, I am quite willing to let the balance run until you and he can discuss the matter thoroughly and reach a fair settlement, but if he will not pay the unquestioned amount I think suit had better be brought without further delay; and this will, of course, be for the whole amount.

Your friend, Mr. Jamieson, of the Security Finance Company of this city, has given me your name, and has assured me that I can place the matter in your hands with implicit confidence that it will receive careful and conscientious attention.

Awaiting your report, I remain

Yours very truly,

.....

### **Direct Remittances**

When a claim is placed in the hands of an attorney or collection agency, it not infrequently happens that the debtor, apparently resenting the interposition of a third party, sends his remittance direct to the party he owes.

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In such case the attorney or agency should be notified at once and is entitled to the agreed commission. The following letters can be used in such cases:

June 8, 1913.

MERCANTILE COLLECTION AGENCY,  
251 Fifth Avenue,  
New York City.

*Gentlemen:*

We are in receipt of a remittance of \$75 from Mr. James L. McFarland, of Philadelphia, in full settlement of the account placed in your hands June 3d for collection. You are, of course, entitled to your 10 per cent. commission on this amount, and we are enclosing herewith our check for \$7.50 in payment of same.

Thanking you for your successful efforts in the matter, we remain  
Yours very truly,

.....

MR. JOHN HAYDEN,  
75 Maryland Avenue,  
Washington, D. C.

*Dear Sir:*

Mr. Harvey L. Sprague, of your city, has just sent us \$250 in payment of the claim put in your hands for collection. This should, of course, have come through you, but I do not suppose you will object to the direct remittance. In accordance with the agreement between us, I am enclosing herewith your fee of \$25.

Trusting this will be satisfactory, I remain  
Yours very truly,

.....

WESTERN COLLECTION AGENCY,  
783 State Street,  
Chicago, Ill.

*Gentlemen:*

We are glad to state that a remittance of \$84 has just reached us from Mr. John H. Klein, of your city, in settlement of the account placed in your hands some ten days since for collection. We are crediting you with \$8.40—10 per cent of the amount collected—which we will either remit or dispose of otherwise, as you may direct.

Thanking you for your promptness in the matter, we remain  
Yours very truly,

.....

**Keeping in Touch With Collections**

Even though a claim is placed in the hands of attorneys or with a collection agency, it is still necessary to keep in touch with the matter and see that it is not allowed to lag. A good collection agency will report from time to time on claims put in its hands, whether these claims are collected or not. Attorneys, as a rule, do not do this, but hold the matter until something definite has been accomplished. If either agency or attorney is derelict as to reports, it will be necessary to write; and this should be done without too much delay. Particularly is this necessary when the claim is placed in an attorney's hands, for occasionally, if the attorney happens to be a friend of the delinquent debtor, he will purposely delay the matter as long as the creditor will let it rest, or, if the matter is a small one, may let it drag because there is but little profit in it for him. In either case a "prodding" letter will be beneficial. The forms which follow are of this nature:

*Gentlemen:*

Will you please report on our claim for \$75 against George S. Collins, 89 Lake Avenue, Cleveland, Ohio, which was placed in your hands for collection May 15, 1913?

Your prompt attention to this matter will be greatly appreciated.

Yours very truly,

.....

*Gentlemen:*

We have not yet heard from you in regard to our claim of \$75 against George S. Collins. Will you kindly report at once its exact condition?

Yours very truly,

.....

If the matter was placed in the hands of an attorney, the following letter might be found suitable:

*Dear Sir:*

May 15, 1913, an account against James H. McGill, of your city, for \$125, was placed in your hands for collection. We have not yet received a report on this matter. Will you kindly inform us just what you have done and what are the prospects of payment?

Yours very truly,

.....

If, as not infrequently happens, this produces no result, the next letter might be used as a follow-up:

*Dear Sir:*

We wrote you on June 15th in regard to our claim of \$125 against James H. McGill, of your city. This claim has been in your hands for over a month, but we have had no report of progress, and have heard nothing from you in any way save your first bare acknowledgment that the claim had reached you.

We are somewhat surprised at this prolonged silence on your part, and will ask you to inform us at once just what you have done and what are the prospects of a prompt collection.

Yours very truly,

.....

### **Defective Remittances**

It sometimes happens that when remittances are received in the form of checks or exchange, signatures or endorsements are omitted. Occasionally this is done with intent on the part of the remitter, as he calculates that the check will be returned to him for signature or endorsement, that he can hold it a day or two before returning it, and that he will thus gain the time consumed in transit and the time that the check is in his hands, the total in the case of far distant points sometimes aggregating between two and three weeks.

What the collection manager is to do in a case of this kind will depend largely on circumstances. The most obvious thing is to return the defective instrument to the debtor for signature. In such case a letter similar to the following will serve:

June 16, 1913.

MR. WILLIAM JACKSON,  
813 Lake Avenue,  
Chicago, Ill.

*Dear Sir:*

We are in receipt of your check for \$235, sent us in settlement of your May account. The check reaches us, however, without a signature. We are therefore enclosing the check herewith and will ask you to sign it and send it back to us by return mail.

Yours very truly,

.....

It is sometimes wiser not to return the check for signature. If it gets back into the sender's hands, it may be a long time before it comes back again, and in any case a delay is involved. As an alternative, the check may be deposited, with a guarantee from the depositor, or with a request to the bank to forward same for signature and collection. It is then in order to write the party from whom the check was received, advising him of the conditions and what has been done. In due time the check will arrive and be presented to the drawer for signature, and it is but seldom that a concern or individual of any credit standing will refuse to sign. The following letter will serve on occasions of this kind:

June 16, 1913.

MR. WILLIAM JACKSON,  
813 Lake Avenue,  
Chicago, Ill.

*Dear Sir:*

We are in receipt of your check for \$235, sent us in settlement of your May account. The check is, however, unsigned. This was, of course, an oversight on your part, and we are depositing the check for collection, with a guarantee on our part that you will sign it on presentation.

Thanking you for the remittance, and regretting the trouble we are forced to give you in the matter, we remain

Yours very truly,

.....

The following quotation from D. W. Pomeroy, writing in the *Bulletin of the National Association of Credit Men*, will be found interesting in this connection:

"Occasionally defective remittances are received, and in some cases, evidently for the purpose of killing time, we get communications purporting to enclose checks, checks made out wrongly, checks not signed, checks or drafts to remitter's order not endorsed.

"In such as the first or the last cases I make a draft for the amount specified, pin the same to the letter, deposit them in the regular account, and notify the debtor why draft is made.

"In the second case, I write on the back over our signature, 'Amount guaranteed,' mentioning the correct amount, attach letter, and deposit.

"In the third case, I write over our signature, 'Within amount guaranteed,' attach the letter thereto, and deposit.

"In the fourth case, I examine the letter carefully, and if it shows that the draft was sent to us for credit, I supply the endorsement by myself, as agent, and deposit same, retaining letter as my authority for so doing.

"I have had many defective remittances as above and with a single exception all have been paid; and never a single complaint from any source by reason thereof has come to me.

"Referring again to the fourth case, while I hesitate to advise the procedure named, lest I may be misunderstood, I want to say that I do not hesitate to avail myself of its advantages, having obtained advice of the best counsel that, under the conditions stated, authority is clearly given."

## CHAPTER XV

### THE COLLECTOR AND HIS WORK

#### **Personal Collections**

Modern collecting is done chiefly by correspondence. There are times, however, when collections are better made by personal visits, and personal effort is sometimes advantageous after the resources of correspondence have been exhausted. Collectors are therefore commonly found in the larger mercantile concerns, and also in some lines of business where special conditions require their employment.

In a business of any magnitude, the collection manager's time and attention is needed for more important matters than for the personal collection of ordinary individual accounts. Collectors must therefore be employed, and, as these are subordinate to the collection manager, they are usually employed by him.

#### **Qualifications of a Collector**

The collector should have some business experience and a sufficient knowledge of bookkeeping to enable him to keep an accurate record of what he collects. In appearance he should be neat, as in his interviews with customers he represents the house, and will represent it more adequately, be treated with greater respect, and secure better results, if he is properly dressed. People are



inclined to resent requests for money. Hence, the collector must be able to approach them tactfully. He must, as a matter of principle, be courteous, and at the same time must also be firm. He must have sufficient intelligence and knowledge of human nature to make a study of each customer and decide the best line of approach. Also, he must possess a large amount of patience and persistence; as many debtors, apparently hopeless, will, if followed closely, make payment at last.

It must be confessed that the collector must not be too thin-skinned. A sensitive man does not make a good collector. Be he tactful as he may, the persistent follow-up, which is part of the collector's duties, will occasionally offend; and he must then be able to meet the reproaches and perhaps the abuse of delinquent debtors with dignity, with proper but not offensive independence, and without humiliation.

The successful collector must be honest. To promote his honesty it is wise for the house to require a bond, even though it pays the cost itself. When a bond is required, the collector will feel in a way that he is pledged to honesty, also that his movements are subject to the scrutiny of the bonding company. If he is honest he will not object to this, for there is nothing for scrutiny to discover. If he is not honest, the knowledge that he may be watched tends to make him honest—at least as to his collection moneys.

The collector must also be energetic. Energy, as considered from the standpoint of the collection department, is ability to get work done; to put things through—not merely ability to call, but ability to call and come away with money, or with the debtor's promise either to

pay on some definite date, or to come round for a personal interview with the manager. Results are what the collection manager wants, and results are not secured by sitting down and waiting for them to come round.

It goes without saying that the collector and the collection manager must be in entire harmony with each other. The collection manager cannot produce proper results if his subordinates do not co-operate with him. If, therefore, the collector persists in disregarding the wishes of the collection manager and does not carry out instructions, the only thing to do is to get another collector who is better versed in the requirements of team work.

### **Employing Collectors**

It is sometimes difficult to find capable collectors; but not infrequently first-class men who could not otherwise be secured, will take a collector's position for the sake of the outdoor work. In these men, whose health will not longer stand the confinement of office work, the manager often finds collecting ability of a high order, made more valuable by a thorough office training. Such men cannot be regarded as inexperienced, even though the actual work of the collector be new to them. With a little advice and help, they can usually take hold and relieve the collection manager in a way which would be impossible for a really inexperienced man.

The question of the collector's compensation will be decided by the house. A good collector can earn from ten to twenty dollars a week—oftentimes more. An excellent arrangement is to pay the collector a nominal salary, and a commission on all he collects each week above a

certain amount. This adds greatly to the interest of his work and also to its results.

In employing collectors, look well to their references, and make careful inquiry into their family history. Much information can thus be obtained as to their honesty and ability. A bond should, as stated, always be required; and the fact that the collector is accepted by a bonding company is pretty good evidence that he is honest, as the bonding companies look up the applicant's record very thoroughly before assuming any risk.

When a collector is once employed, he should not be discharged, nor should a new man be brought into his place, without the best of reasons. The knowledge the collector has gained of the accounts and of the customers of the house enables him to accomplish a great deal more than is possible for a new man. Also, it is not usually advisable to take the risk of this information going to some competing house.

### **Training Collectors**

The manager should realize the importance of starting his collectors right. The necessity of systematic work must be impressed upon them; and they should be made to feel that the manager is ready to give them advice when they are in trouble, and to stand back of them in all their efforts. The collector should also acquire a general knowledge of the business, not that he may make sales, but that he may be able to discuss its accounts and its affairs, when necessary, in an intelligent manner. It is obvious that a man who is not familiar with the details of the business is at a distinct disadvantage in meeting

the protests, the objections, and the evasions of delinquent customers.

A man new to the collecting business must have training and some experience before he can handle much work. On the other hand, it often proves more satisfactory to employ a young man inexperienced in the work than an experienced collector, as the inexperienced man will be freer from bias, quicker to adopt new methods, and more likely to carry out instruction.

### **Honesty of Collectors**

The collector should be impressed with the responsibility which attaches to handling other people's money. Too frequently collectors are—or become—dishonest, and misappropriate both the concern's time and its money. It begins, perhaps, with little irregularities. The collector takes time on his rounds to attend a horse-race or a ball-game, or he stops work to play a game of billiards or pool. Gambling almost inevitably follows, and small bets lead on to larger, until the collector begins taking the concern's money in order to pay these gambling debts. In the early days the "beginning" defaulter takes this money with the intention of putting it back; but, losing continually, he is soon so badly in debt that repayment is impossible, and the end is only a question of time.

In addition to the safeguard of the bond, some very careful system of checking the collector's work should be employed. The collector may perhaps have reported a promise to pay when in reality the money has been paid to him already. If there is a suspicion of this, and especially when the amount is large, a letter should be written to the debtor stating that the house is relying on

receiving his payment on the date it is promised. If payment has not been made, this will help the collection eventually; but, if the collector has received and kept the money, the debtor will very promptly institute inquiries to find out why he has not received credit. It may aid the collector to let him know casually from time to time that such letters are being sent out as a means of helping his collections. He will then not dare to withhold funds which do not belong to him, as he will suppose the same method is followed with all accounts, or, if not, will be unable to tell which accounts are thus followed up. The condition will thus act as a check on his entire work.

The collector should make a report of the amount he brings in each day, and this report should be filed away for reference. Praise when he makes a good record, pleasant comment when the record is poor, will stimulate him to his utmost. The mere knowledge that what he does is watched and appreciated, when it is worthy of appreciation, will be a distinct encouragement. He should be led to feel that there is a future to his work, and that, if he makes good as a collector, there is more pay and a better position before him.

### **The Work of the Collector**

The collector's work is distinctly the collection of debts. If he gets prospects, he can turn them in to the sales department. He should not be allowed to make sales. If he has the selling instinct too strongly developed to be suppressed, turn him into a salesman, but do not let him be both collector and salesman. Sales and collections do not work together to advantage.

While collectors cannot sell to advantage, it is equally

true that a salesman cannot collect to the best effect. He cannot advantageously use the arts of the salesman to persuade a prospect into buying goods, and then—transformed into a collector—bully him, as is sometimes necessary, into paying for them. He may do it once, but on his next trip as a salesman he will find himself heavily handicapped. The salesman-collector might be capable of playing the double part indefinitely; but the customer is apt to object.

Under some circumstances, as, for instance, where the distance is great, and frequently in small businesses, the salesman must perforce act as a collector also. The salesman-collector will not, as a rule, collect as effectively as a collector who is not a salesman; but he should do fairly good work at least, and, when payment cannot be secured, should always be able to find out the reason for this non-payment.

The collector must believe thoroughly that he is going to get his money, but he must not be too optimistic about getting it quickly. He should understand that he is to give time enough to every debtor to get the money, or to find out why he cannot get it. He must, nevertheless, understand that he is not to become too familiar with the customers, nor to lose time and endanger his efficiency by visiting with them too freely. It is very difficult to force payment from a friend.

Above all things the collector should never get angry himself, unless he does it as a collection measure with intent. He must also prevent the customer's losing his temper, if possible. This holds true even in the temper-trying operation of the "sweating process," when the collector calls on the debtor with the intention of staying

until he gets his money—going carefully over the facts of the case, pleading, threatening, and bringing every possible pressure to bear in order to attain his end. Under such circumstances the debtor will naturally be greatly annoyed, will sometimes become violently angry and insulting, will use every device to discourage the collector and to avoid payment, but will, on the other hand, not infrequently pay up just to get rid of his tormentor. The strain upon the collector is, however, even greater than upon his victim, and a successful “operation” requires a self-control, a resourceful skill, and a persistence, that are found only in the more able and experienced collectors.

When the collector finds a debtor cannot pay, he should get some definite promise for the near future. He should also find out what the debtor’s resources are, and get such information as he can about his general financial condition. Sometimes in very difficult cases it may be wise for the collector to take an attorney with him, and, should the debtor be unable to make payment at the time, persuade him, if possible, to give a note secured by a real estate mortgage, or as a last resort by a chattel mortgage. If he consents, this is drawn up then and there, and, as soon as signed, gives additional security, and enables collection to be made through the courts, if necessary.

Debtors are frequently out when the collector calls, and some of them cannot be found in business hours at all. A collector who is really interested in his work and who expects to make a success of it, must be willing to call on such accounts in the evening or early morning, or whenever they can be found. When a debtor is not at home at the time of the collector’s call, he should leave a note under the door, stating that he has been there,

and asking the debtor to see the manager at the store. Every time he calls he should either see the debtor or leave something to show that he has been there. Sometimes the mere number of times the collector has called will shame the debtor into paying.

A difficult and important work frequently assigned the collector is the tracing of debtors who have moved without notifying the house of their new address. In many cases this omission is merely an oversight on the customer's part, but occasionally it is done with intent to defraud. In such work the collector must assume the rôle of a detective, making inquiry from next-door neighbors, from neighboring stores, and from anyone else likely to know where the debtor has moved. By such inquiries he may discover the debtor's new address, or perhaps can ascertain the name of the transfer company which did the moving, and through this company discover the missing trail.

When two or more collectors are employed in handling city accounts, the town is usually divided in sections, each collector confining his calls to those customers who are in his own division. When a firm operates branch stores, each store, as a rule, has its own collector or collectors, who call on all customers in its territory. The traveling expenses of such a collector, and the time consumed, will obviously be much less than in the case of a collector sent out from the main office.

It frequently occurs in out-of-town accounts that an overdue amount is a small one—perhaps but a few dollars—and not enough to justify a special call. In such cases the collector should keep the account in mind, and call whenever he is in the locality of the debtor. The



amount will not justify a special trip, but this continual incidental calling will usually secure payment. The debtor sometimes pays for the sole purpose of stopping the collector's very annoying visits.

The collector should, as a matter of course, always promptly report any change of address on the part of debtors. Such changes are continually occurring, especially with the smaller accounts, and are for the most part in good faith and without intention of evading payment. If, however, they are not reported and recorded, the effect is the same as if evasion of payment were intended.

### Collector's Daily Report

Each day the collection manager will give the collector a certain number of unpaid accounts, which he is to route in a systematic manner, so that they may be covered with the smallest loss of time in getting from place to place. At the end of the day the collector should be required to turn in a daily report showing exactly what he has done. A card may be used for this purpose and the report should be very simple. The following is an excellent form:

COLLECTOR ..... DATE .....

LEDGER FOLIO	NAME OF CUSTOMER	ADDRESS	AMOUNT COLLECTED	REPORT

Each card, as handed to the collector, has on it the names and addresses of the customers on whom he is to call, and also the ledger folios of the accounts. The ledger folio is for bookkeeping purposes and does not directly concern the collector. The customer's name and address gives the collector his working instructions and enables him to route his day's work to advantage. The amount collected is an essential feature of the report, serving both as a record and as a check on the collector.

The report provided for in the last column of the card is an important feature. If payment has not been made, this report must be definite, stating the exact date when the debtor promises to pay and his reasons for not paying at the present time; also any other information, such as change of address, etc., which will be of use to the collection department. The card does not give much room for verbiage; hence, the collector must be taught how to report in the fewest possible words that will bring out all the facts. Much information can be conveyed in a ten-word telegram, and the collector should phrase his report in the same "telegraphic" language. This method saves time both for the collector and the manager. The style is not difficult to acquire, and its value is well worth the effort.

## CHAPTER XVI

### LEGAL PHASES OF COLLECTING

#### **Collection Law**

The collection manager need not be a lawyer, but he should have a good knowledge of collection law. This is not to enable him to do the work of an attorney, but merely to qualify him properly for his own work. It will be readily understood that a knowledge of the legal conditions affecting collections—what he may do, and what he may not do, and the general possibilities both before and after suit—is of the greatest value to the collection manager. In fact, he cannot be first-class in his work without a fair knowledge of collection law.

No complete presentation of the subject is possible within the limits of the present chapter. All that can be done is to give a few of the more important facts and features of the law which apply in collection work—just enough to indicate the lines along which the collection manager should pursue his own studies.

#### **Collecting by Legal Proceedings**

Collection by legal proceedings is the last resort of the collection manager. It is usually expensive, always troublesome, and invariably alienates the customer. It is a confession of inability to collect the account in any other way. The collection manager can never build a reputa-

tion on collections made through the court-room. In some cases, however, collection by legal process is unavoidable. Then it should be employed without hesitation, and, once decided upon, should be pushed as vigorously and effectively as possible.

While collection by legal proceedings is not to be employed until it is clearly apparent that collection can be made in no other way, the fact that suit can be brought is one of the most effective collection measures at the command of the collection manager. The ordinary person has but slight knowledge of the law. He knows it is costly and troublesome, mysterious as to its workings, and frequently inexplicable as to its results. So greatly does he dread it that with many debtors the mere threat of a lawsuit, properly made, is enough to bring about a settlement.

### **Employment of Attorneys**

When collection by suit is necessary, an attorney must be employed. In fact, in a great many cases attorneys may be employed to advantage before suit is necessary or even contemplated. A letter from an attorney to a debtor, stating that the account is in his hands, and suggesting that it would be advantageous for the debtor to call, will often be sufficient to bring him to the attorney's office; and, once there, some settlement without recourse to the courts should be possible. This is due to the general fear of a lawsuit already referred to. The attorney's letter convinces the debtor that suit will be brought unless the matter is settled. Indeed, in many cases the recipient of such a letter thinks that suit has actually been brought

and that this letter is the first step, and comports himself accordingly.

### **Attorneys' Fees**

When an attorney is to be employed it is always well to have a distinct understanding as to his charges before he is engaged. If the attorney is obtained from some agency list, the fees are usually fixed and understood, and, if for any reason a different fee is proper and allowable, the attorney will advise his client before proceeding. Ten per cent is the usual charge on small accounts collected without suit, this fee decreasing as the amount involved increases. On small accounts there is usually some minimum fee below which the attorney will not go, as, for instance, \$3 or \$5. Where suit is necessary, attorneys frequently receive one-half of the amount collected, the attorney then usually paying the court costs. The attorney's fee will, of course, be larger where collection is made by suit than where the matter is settled without recourse to the courts.

The following representative table of collection rates and rules are those which obtain for the United States among the attorneys of a well-known "mercantile service":

#### **COLLECTION RATES AND RULES**

**NOTE.**—These rates do not apply to collections outside of the United States and Canada. Special agreement and rates must be made with foreign correspondents when placing claims.

##### **1.—First Class—Claims collected on first notice or demand:**

- 5% on first \$200 or less.
- 2½% on excess of \$200 to \$500.
- 1% on excess of \$500.
- Minimum fee, \$2.

2.—Second Class—Claims collected by repeated duns, notices or demands:

10% on first \$200 or less.

5% on excess of \$200 to \$1,000.

2½% on excess of \$1,000.

Minimum fee, \$3.

On claims of \$6 or less, the fee shall not exceed one-half the claim.

3.—Third Class—Claims collected by suit:

10% of the amount recovered.

Minimum fee, \$5.

4.—Suit must not be brought, or costs or any expense which would be chargeable to client incurred, without authority. Costs and disbursements must be advanced by clients before suit is brought. Should the nature of the suit justify an extra charge, client must be notified and the charge agreed upon in advance.

5.—Where by law or bar rules, a different rate from the above is obligatory on the attorney, prompt notice must be given clients or forwarders, and the privilege accorded of accepting terms or withdrawing the claim.

6.—Worthless claims to be returned without charge, unless suit has been ordered or some service rendered other than the ordinary investigation and efforts to collect.

7.—Subscribers sending business to one another will be governed by the above rules, except that fees must be divided, one-third to party sending and two-thirds to party receiving same.

8.—Where a claim has been sent to an attorney and any services have been rendered, and it is afterward settled by the claimant or party sending it, it shall be subject to the same fees as if collected by such attorney.

9.—Where client wishes judgment for future collection, or where security is obtained by attorney, fees shall be as agreed upon between the parties.

10.—Claims collected in instalments bear the same rate of fees as if collected all at once, in the absence of any agreement with client to the contrary.

11.—Subscribers sending claims to attorneys make such attorneys their own agents.

12.—Any attorney receiving business from subscribers which he is not at liberty to attend to by reason of being employed on the other side, or for other good reasons, will return same at once. If not willing to comply with these rules and terms, he will return business at once to subscriber.

13.—IF HE HOLDS THE CLAIM HE ACCEPTS THESE TERMS.

**Selection of Collection Attorneys**

Some attorneys specialize on collections, and are for this reason better equipped to give proper and systematic attention to the accounts placed in their hands. The younger attorneys are frequently better for collection purposes than those of greater experience and reputation. The younger men need the money and have a name to make, and for this reason will follow a collection much more closely than is usual with the older men.

Whoever the attorney employed may be, he should be a good one and an honest one, and he must receive an adequate fee for his services. A dishonest or unscrupulous lawyer cannot be trusted with a collection. Such a man will sometimes make but little effort to win his case when it is brought before a justice of the peace or in some other lower court, preferring that it should be lost here for the sake of the prolonged litigation and larger fees involved in an appeal to a higher court. Where there is any suspicion that this may be done, the attorney should be informed in advance that there will be no appeal. Then, for the sake of his fee—if not of his reputation—he will do his best in the one hearing which is permitted him.

In choosing an attorney every care should be exercised to avoid friends of the debtor. To this end, when employing an attorney for out-of-town claims, it is sometimes wise to select one who, while easily accessible to the place of residence of the debtor, lives himself in a different place. It is obvious that a friend of the debtor would not be likely to prosecute the claim as promptly and forcefully as a stranger would.

It has already been suggested that collection informa-

tion of much value can frequently be secured from attorneys. When an attorney furnishes such information—and especially when he supplies it without charge—he should, as a matter of course, be given the collection work in his locality. It is certain that the attorney who furnishes reports without charge is conferring a material favor on the collection manager and the house, and is entitled to any of their business which he can handle, whether it be collections or other legal work. It may be noted in passing that many attorneys contend that collections do not pay for the handling, and justify attention only because they lead to other business which is profitable. Be this as it may, the local attorney is one of the manager's best allies; and, being on the ground, and knowing the conditions and the law which controls, he can give valuable information that would be difficult for the manager to secure in any other way. Such attorneys are therefore well entitled to anything the collection manager can throw their way.

#### **Placing the Account in the Attorney's Hands**

When an account is placed in the hands of an attorney, he must be given a full and accurate statement of the case. At the same time any instructions necessary should be given him so clearly and specifically that there is no possibility of mistake. If suit is to be delayed, or not to be brought at all, or if a compromise will be accepted, or if there is any other information that may help the attorney, all should be plainly stated. Thereafter, any information in point which comes to the collection manager should at once be sent to the attorney. He cannot



act to advantage unless he knows the facts, and all the facts.

In the interchange of information in regard to an account, both collection manager and attorney should guard against misunderstandings, as mistakes might be costly. Also, it should be borne in mind that the relationship between the attorney and the collection department is one of confidence, and, to be effective, there must be perfect co-operation and fair dealing on both sides.

### **Follow-Ups for Attorneys**

Many attorneys fail to appreciate the importance of keeping the collection manager informed as to what is being done with his claims. For this reason he not infrequently supposes that the particular accounts in which he is interested are receiving no attention, when in fact the attorney may be carefully following them.

Attorneys are not, as a rule, good men of ordinary business; and, when they do not report promptly, they should be written to and a stamped envelope be enclosed for reply. Frequently the attorney's report will be returned on the back of the letter which was written him. Of course, an attorney cannot be expected to give a lengthy, detailed report of a small account, or even of a large account, unless there is some necessity for so doing. In a few words, however, he can tell enough to show that the account is being given the proper amount of attention.

If the attorney does not respond promptly, follow-up letters should be sent to him, as suggested in Chapter XII; and, if these fail to produce a response, the matter should be placed for investigation in the hands of some other attorney, with a statement of the facts. Or, if an

attorney is employed who is recommended for collection purposes by one of the mercantile agencies, the matter can be taken up with the agency. Attorneys connected with the mercantile or collection agencies are usually bonded, and in such case there is no likelihood of loss through dishonesty.

### **Bringing Suit**

Where a man has property in his own name subject to execution, the collection of an undisputed account by suit is a simple matter. Even where a debtor has no property, or where his property is exempt from execution, it is frequently advisable to bring suit. In some cases the debtor will pay up to avoid having a judgment standing against him. In other cases he may be ignorant of the law and afraid of it, and, if he finds out that suit has really been brought against him, will make some settlement.

When suit is begun, it is sometimes wise to have it continued from time to time so as to tire the debtor out or keep him in a nervous state until he will at last make payment for the sake of peace. The plaintiff may, of course, discontinue such a suit at any time if he does not think it worth carrying further, without loss save for the actual cost of the proceedings to the point of discontinuance.

All cases in the same locality should be brought before the same judge or justice of the peace, as far as possible. This results in more friendly treatment and smaller court costs than would otherwise be the case.

**Statute of Limitations**

In every state of the Union is found the "statute of limitations," prescribing a period beyond which a debt cannot be collected by legal procedure. If action is not brought upon the account within this period, it is outlawed—unless kept in good standing by a payment or other recognition on the part of the debtor—and is not recognized by the courts. The prescribed time varies in the different states, and also varies with the nature of the claim. An open account expires by limitation in from two to eight years, according to the state. For notes, the period is usually longer. As a general rule the statute begins to run from the date of the last payment, if the account is fully due at that time. A written recognition of the claim by the debtor before the expiration of the statutory time limit gives it a new lease of life, the statute running from the time of such recognition.

It is obvious that the collection manager must watch his accounts closely and revive the account in some way, or bring suit before the expiration of the specified period, or he will be barred from legal procedure. Even a small payment, if made within the time limit, will give the debt new life, or, as above stated, a written acknowledgment of the debt by the debtor, stating his expectation of paying it, will serve the same purpose.

**Exemptions**

The exemption laws of the various states allow debtors to retain certain property regardless of what they owe. This is usually necessary property, such as a certain portion of the wages of an employee, the tools of a carpenter or mason, the homestead of a married man.

Speaking generally, no matter what the conditions, this exempt property is not liable for the debts of its owner, whether in the form of a judgment or otherwise. The exact character and the amount of property which is so exempt varies in the different states.

### **Replevin**

With instalment houses a frequent means of regaining possession of goods is by a replevin suit. This is a suit for recovery, and immediate possession is possible because the title of the goods is in the seller, and he is therefore allowed, by giving bond, to take the goods at once and hold them until the case comes up for trial. Many debtors, when goods are thus taken, do not make any further effort to retain or regain them, and the house has possession. If the case comes to trial, the seller can show that the debtor violated the terms of his contract by failing to make payments as they fell due. This will, in most states, defeat the debtor, but the law varies so greatly in the different states that this is not always true.

### **Garnishment : Attachment**

Garnishment is a proceeding whereby the creditor stops payment of a debtor's salary or wage, this salary or wage being turned over in whole or in part, according to the circumstances, for the benefit of the creditor. A portion of the employee's salary is usually exempt from garnishment, the proportion varying in the different states. The proceeding, where possible, is very effective in forcing a debtor to settle.

Attachment is a means of preventing a debtor from removing his property from the state, or disposing of it

within the state, after suit has been instituted against him for recovery of the debt. Attachments are usually allowed at the time suit is brought, if there is any reasonable ground for believing that the debtor contemplates leaving the state or disposing of his property. In many states, if the debtor attempts to abscond, he loses his right of exemption.

**Judgment : Execution**

When a claim is sued upon and decided in favor of the creditor, the award of the court is termed a "judgment," and fixes the amount to be paid by the debtor. A judgment can be kept alive more easily and for a longer time than can an open account. Under proper proceedings, property subject to execution and belonging to the debtor may be seized to satisfy a judgment at any time during its life.

An execution is issued by the court after judgment against a debtor has been secured. It is an order directing the proper court official to seize the property of the debtor and sell it to satisfy the judgment. Even though the property of the debtor may be exempt, the process is frequently effectual in bringing about a settlement. If an officer calls on the debtor with the execution, it usually has the effect of frightening him, regardless of the legal possibilities, so that he will make some settlement or give security if he cannot make payment at the time.

**Supplementary Proceedings**

Supplementary proceedings are well described in the following quotation: "Upon the return of an execution,

unsatisfied in whole or in part, the judgment creditor may procure an order from the District Court, requiring the judgment debtor to appear before the judge, or a referee, and answer an oath, touching his property. The debtor may be restrained, by order, from interfering with or disposing of his property, not exempt from execution, during the proceedings. If there is any danger of the debtor leaving the state he may be arrested upon a warrant issued by the judge, on proof of the facts.

"Witnesses may be required to appear and testify in the proceedings. A receiver may be appointed with power to take property of the debtor, convert it into money and apply the proceeds on the judgment.

"Disobedience to orders made in these proceedings is punishable as contempt. The debtor cannot be excused from answering questions in the examination on the ground that such answers would convict him of the commission of a fraud."

Not infrequently debtors are summoned to appear in supplementary proceedings after a judgment has been rendered against them, and, not realizing the gravity of the proceedings, fail to put in an appearance. In such case they are in contempt of court, and an officer is sent to seize them and throw them into jail. The debtor is then in a very difficult and unpleasant position, and either he or his friends will almost always raise the money to pay the debt, if it is in any way possible, in order to secure his discharge.

### **Imprisonment for Debt**

Speaking generally, imprisonment for debt is a thing of the past. It is not favored by the law; and almost

the only grounds which are now recognized as sufficient for a debtor's imprisonment are fraud, or a belief that the debtor is about to leave the state. This position shows the changes that are constantly taking place in the law and the general progress of civilization.

### **Suggestions for the Collection Manager**

When selling on contracts of conditional sale, the law of the particular state in which the sale is made must be consulted as to the force and form of such a contract, and the method of filing or recording; and these requirements must be followed to the letter. This is also true when selling under chattel mortgage. If the proper precautions are not taken, the whole aim and purpose of the procedure, *i. e.*, to hold the property as security for the debt, is thwarted.

When selling to a corporation, it should always be remembered that the stockholders are rarely liable for the corporate debts. If their stock is not full-paid, they are liable for such debts up to the balance unpaid on their stock; but, if the stockholder has once paid for his stock, or if he has bought it from someone else in good faith as "full-paid" stock, he can no longer be held for the debts of the corporation. This rule obtains in practically every state of the Union. In a partnership, on the other hand, each member is liable for any debts contracted by the firm up to the full amount of his personal property. The firm property must, of course, be exhausted before the personal property is levied upon, but the individual property of the partners, as well as the firm property, stands behind the partnership debts.

The time for filing a claim against the estate of a

deceased person varies in different states; and for this reason, if the collection manager has such a claim, he should either file it at once or consult the statutes as to the time in which it may be filed.

Books of account, to be competent as evidence, must be books of original entry. This means that the entries must be made direct and not be copied from other books or memoranda. If entries are first made on a slip and then copied from this slip to the books, the books themselves are not books of original entry and cannot be used as evidence. If such slips have been used and then thrown away, there are no books of original entry; and the details of any transactions involved must be proved by personal evidence or in such other way as may be possible.

Journals and day-books are usually books of original entry. Ledgers, if their postings are taken from other books, are not. The collection manager should be careful that his books are kept in such shape that they are available for court purposes when necessary.

If a check or draft taken in payment of an account is drawn on a bank or party in the same city in which the payee has his office, it must be deposited or presented for payment on the day it is received, or, at the latest, the day following. If it is drawn on a bank in another city, it must be deposited for collection within the same period. If this is not done, the payee is negligent, and if the bank or party on whom the instrument is drawn fails before the check or draft comes in, the loss falls on him.

Frequently it is possible for a debtor, if the pressure is severe, to secure some friend or relative to guarantee payment of his debt. In such case the collection manager



must bear in mind that the guarantee is absolutely valueless unless it is in writing.

### **Law for the Collection Manager**

The collection manager should study the bankruptcy law carefully, as delinquent debtors are very apt to go into bankruptcy; and he must then know what to do in order to secure proper consideration for his claims. When the amount is large, he will usually employ an attorney to represent him, but for small accounts he should be able to make the proper affidavits and file his claim himself.

The subject of contracts is of continuing importance to the collection manager. Nearly every business dealing is founded on a written or oral contract, and the collection manager must have a fair knowledge, at least, of the law of contracts if he is to handle his work intelligently. Any of the better works on commercial law treat the subject of contracts in considerable detail.

The law of negotiable instruments should also be given close study. Originally founded on the Law Merchant, *i. e.*, the custom of merchants which had come into general use and had been accepted by the courts, the law of negotiable instruments is now statute law in most of the states, and is uniform in its main details in the majority of them. The statute is an important one for the collection manager, as the instruments he deals in most frequently, such as checks, drafts and notes, must be correctly worded and properly drawn to make them negotiable; and the requirements as to endorsements and as to presenting and protesting must be followed to the

letter, in order to hold the various endorsers and insure payment.

The collection manager will also find a general study of commercial law—sufficient to give him the ordinary everyday requirements of business procedure from the legal standpoint—very helpful in his work.

### **Suggestions to Delinquent Debtors**

In writing letters and sending statements to delinquent debtors, it is not uncommon to print short, pertinent statements at the top or bottom of the sheet. These are of such a nature as to cause the debtor to think, and not infrequently to act. When used with discretion, and only where they are needed, they are advantageous. Some of these endorsements are as follows:

“It is common law, existing in every state, that any person or persons receiving any article or articles and making use of same are liable for payment.”

“No responsible man will allow, and a poor man cannot afford, to have judgments and costs rendered against him. The proper time to make defense or settle an account is before the case gets into court. When once judgment is entered, defenses are barred.”

## CHAPTER XVII

### MERCANTILE AND COLLECTION AGENCIES

#### **Mercantile Agencies**

The mercantile agency is an evolution—the natural outgrowth of the demand among merchants for exact information regarding the financial standing of their customers. The first agency in this country dates back to 1840, when a number of merchants in New York City organized for the purpose of interchanging credit and other trade information. At the present time there are two mercantile agencies of national prominence in this country—Bradstreet's and Dun's. There are numerous smaller organizations confined to special trades or lines of business or to limited territory. The predominant purpose of all these is the gathering and dissemination of credit information.

The two national agencies mentioned have widespread and effective organizations, with offices, representatives or correspondents in every part of the country, and in practically every important city of the world. They furnish credit information in regard to any mercantile person, or subject, resident in the United States or Canada, or residing in any part of the civilized world.

#### **Mercantile Rating Books**

The mercantile agency is sustained by subscriptions from its clientèle. The two general agencies, mentioned

above, publish quarterly reference or rating books in January, April, July and October. For the use of books embracing the entire country, and the supplying of a limited number of special reports, the subscription rate, or fee, required by these agencies is \$100 and upwards per annum. This includes the use of semi-annual editions, an extra charge being made for quarterly volumes. For such service in but a portion of the United States, the western states only, for instance, the annual fee is slightly less, and a proportionately lower charge is made for extra copies of the rating book. Additional special reports over and above the number agreed to be supplied for the minimum subscription fee just referred to, may be contracted for by the hundred, the price depending upon the kind or class of reports wanted. Inasmuch as the changes in rating average over 3,000 a day, this frequent replacement of the reference book is desirable where late information is advantageous.

The reference books issued by the Bradstreet and Dun agencies are very comprehensive volumes, covering the entire country. They are supposed to contain the name of every individual, every partnership and every corporation in the United States and Canada doing an independent business of a nature and of a sufficient volume to be of interest from the credit standpoint. For each individual or concern rated they give the place and the nature of the business, the estimated worth, and the general credit standing. The ratings and the lines of business of the parties whose names appear are indicated by letters, numbers and symbols, the meaning of these being explained by a "key" in the front of the book. For each state the names are arranged under the city or town of residence, and under this place of residence, alphabetically. The volumes also contain at the end of each state a map

of the state, a list of its more prominent banks and bankers, and an abstract of the collection laws which obtain in that state.

The information upon which the reference books are based is primarily obtained from the rated parties themselves. For this purpose reporters are sent out to interview them; and blanks are left with them to be filled out. The questions appearing on these blanks are exhaustive and very searching in their nature, and, if properly answered, give a very good basis for credit rating. Where the rating is an important one, the information furnished by the party himself is usually verified from other sources.

The reference books published by the agencies are merely loaned to subscribers, remaining the property of the concern by which they are published, to be returned to it when a new book is sent out to replace the old, or at the expiration of the subscription term if the subscriber does not renew. Each subscriber signs a contract with the agency, in which he agrees to conform to its rules, and among other provisions to treat all its information as strictly confidential. The agencies do not consider themselves responsible for the ratings appearing in the reference books, and require that the information in them shall be held in confidence and shall be used only by the subscribers.

### **Special Reports**

For any ordinary credit purpose the information given in the agency reference books of late issue is sufficient. For instance, if a wholesale merchant receives an order for a small bill of goods from an out-of-town customer, and wishes to know whether this customer is a good risk, he

turns to his reference book for the rating. If he finds the prospective customer has a fair and good credit, he is usually satisfied and sends the goods along. If, however, he does not find his customer in the rating book, or if the amount involved is so large that he thinks further information is desirable, he applies for a special report.

The special report goes into much detail, giving everything that can be discovered which affects the credit standing of the party under inquiry. Such a report usually tells how long the party has been in business, the business or businesses he has been and is connected with, the amount of his capital, any mortgages or other recorded liens on his property, his reputation for paying bills, important facts in his history that would throw light on his general character, and any other details that might prove of value in determining the credit to which he is entitled.

The agencies have this information on file for all the better-known business men and concerns of the country. When a special report is applied for, if the name of the person or concern inquired about does not appear in their files, or if they do not have the required information, or if their information is not recent, they make an investigation. The special reports furnished in answer to inquiries are held to be confidential, and the agency does not regard itself as responsible for their correctness, merely undertaking to secure the most reliable information it can and passing this on to the party who asks for the report.

When a special report is called for, the agencies utilize the information on file as far as available. If none is found on file, or if the information on file is not adequate or not of late date, a reporter is sent out to secure such information as he can in regard to the person inquired

about. The party himself is usually approached for a statement of his financial condition. The reporter then seeks confirmation by interviewing people to whom the party should be known, particularly those with whom he has, or has had, business dealings. Beyond this, when occasion requires, he examines the county records to see what real property stands in the party's name, and to see if there are any encumbrances against it.

The agencies are frequently criticized as to the time taken to supply reports, as to the errors which do at times occur in these reports, and as to their cost. When, however, we consider the complexity of the system, the exacting requirements, and the careful and rather delicate work involved, the reports are usually as prompt and accurate as could be expected, and the cost moderate.

### **Trade and Local Mercantile Agencies**

There are a large number of small agencies confining their operations to particular localities or to particular trades. These smaller agencies, while frequently useful to the collection manager, do not cover the territory nor have the facilities of the larger agencies, and for this reason, where any considerable volume of business is transacted, and particularly where the business is national in its character, the services of the larger agencies are necessary. The collection manager will frequently find the services of a local or trade agency advantageous as supplementing the information of the larger agencies.

### **Collection Agencies**

The collection agency is a concern making a specialty of collecting debts, and more particularly those debts which the collection manager cannot himself collect.

It might perhaps be said with more accuracy that the collection agency is an institution for the collection of bad debts. It is but seldom that the ordinary, easily collectible account is given to a collection agency.

The better class of collection agencies are reliable, fairly efficient, employ good attorneys, and transact a large volume of business. Small accounts not paid under ordinary pressure are habitually placed for collection with the collection agency. Many houses, when a larger account becomes difficult, or when suit is to be brought, place the matter with such an agency in preference to handling it themselves. Then, if suit is brought, the onus, in part at least, falls upon the agency. The suit is not brought directly, and, if the debtor complains to the house, it is always possible—if desirable—to sympathize with him, explain that the agency has gone further than was intended, and that the concern will be glad to settle direct with the customer and "leave the agency out in the cold." This is, of course, entirely metaphorical, as the agency gets its commission no matter whether settlement is made through it or made direct; but the idea is soothing to the injured feelings of the debtor, and is at times effective.

As stated, the accounts placed in the hands of agencies are usually those which have proved too difficult for the collection manager, or which, for special reasons, it is inadvisable for him to handle. In most cases, whatever is realized from such accounts is just that much gained. If the collection agency returns a claim as uncollectible, it can be placed in the hands of some other agency, or, if thought best, transferred to a suspense account to await



some change in the debtor's affairs which will give it value.

Accounts placed with a collection agency are usually on a commission basis. Where the amounts involved are moderate, this commission is usually 10 per cent, with a minimum charge of from \$1 to \$3. It is needless to say that the status of the agency should be determined before accounts are placed in its hands. It may be even harder to collect a debt from an unreliable agency than from a poor-pay customer.

When a claim is placed in the hands of an agency it not infrequently happens that the debtor calls or sends in and pays the account direct. In this case the agency is entitled to its commission, which is but fair, as its efforts drove the debtor to pay his account.

### **Methods of Collection Agencies**

As stated, the collection agency usually takes accounts on a commission basis. If it is necessary to bring suit, the agency usually requires the party placing the account with it to pay, or guarantee, the costs. Commissions and any costs paid by the agency are deducted from the proceeds of the collection before any payment is made to the party to whom the claim belongs.

The collection agencies are very direct in their methods. The good-will of a customer is eliminated from their consideration, and they do not attempt in any way to mask or soften their demands for money. Their letters are to the point and very little delay is tolerated. It is said that collection agencies secure at least 50 per cent of the total amount they collect as a result of their first letter.

Some agencies furnish blanks or form letters for use by their clients. A small charge is usually made for these blanks, which, though purporting to be sent out by the collection agency, are in reality filled in and sent out by the collection manager or his concern. Such communications usually demand payment in no uncertain tone, and request that this payment be made at the subscriber's office.

Letters of this nature are frequently effective. They are advantageous as enabling the house to hide behind the name of the agency, thereby gaining a double end: first, the house does not directly affront its customer by the somewhat emphatic demand for money, and, on the other hand, it gets the added weight of the agency name. If this first "effort" does not produce results, the claim is then usually turned over to the agency for direct and more active effort.

Other collection agencies furnish drafts for the use of their customers. On these are printed instructions notifying the bank presenting the draft to forward the claim to the agency in case the draft is not honored. This plan is often successful in producing results, but determines in advance that the claim is to be placed in the hands of the agency if the draft is not paid. If the draft is paid, the agency sometimes receives a small commission, though it usually relies for its compensation on an annual charge for its services, or on a small charge for the drafts, or perhaps depends entirely for its compensation on the business which comes into its hands through these drafts.

Under another plan, a contract is signed between the agency and the merchant, by which the agency agrees

to collect the merchant's accounts on the basis of a specified commission, plus ten cents on each claim, paid in advance, to cover postage. The usual terms of such a contract require that the claims placed with the agency must aggregate \$25 or more, the commission varying with the total amount turned over for collection. Under this plan the merchant is in a way guaranteeing the agency a certain amount of business. The amount received for postage usually goes to the solicitor who secures the contract for the agency, and forms part of his commission. The full amount of the solicitor's commission depends on the size of the contract which he writes with the merchant.

This contract plan is said to have merit, and may be advantageous under some circumstances. As a rule, however, the usual plan of a contingent fee on whatever business is placed with the agency is better, as here the merchant is not obliged to place any definite amount of business with the agency, has the privilege of withdrawing a claim, and pays nothing until something worth while has actually been accomplished.

## CHAPTER XVIII

### UNUSUAL COLLECTION METHODS

No matter how careful, how cautious, how capable the credit man; no matter how experienced, how resourceful, how persuasive the collection manager—there always will be some bad debts. Sometimes conditions change after credits are granted. Sometimes the credit man is the victim of circumstances or of deliberate schemes to gain credit. Sometimes, apparently, the very character of the debtor changes, and the man who has been noted for promptness of payment becomes poor pay.

The ordinary debtor will usually succumb to ordinary collection methods. The extraordinary debtor requires something more forceful. There is, of course, always the debtor who cannot pay just simply because he has not, and cannot get, the money to pay, and with whom ordinary or extraordinary collection methods avail nothing. The majority of those who fail to pay their debts are not, however, of this class, but are just plain dead-beats who are trying to get something for nothing. In such cases almost any device within the limits of the law is justifiable.

Some of these devices are not entirely nice. There are unpleasant elements in the collection business. The collector of bad debts cannot be too squeamish, and must at times be even hard-hearted, or else be unfaithful to

his trust. As a rule, however, the collection of the debts usually denominated uncollectible is not a matter of hard-heartedness. It is merely a matching of wits between the collection manager and the delinquent debtor.

The methods of collecting discussed in this chapter may be classed as unusual or special methods. Not all of them are intended for the very hard cases. The telephone call, credit threats, the follow-up draft, instalment collections, and others, are, in fact, of but little avail in difficult cases. The majority of the plans suggested are, however, what might be described as emergency methods—methods to be tried when all others fail.

### **The Telephone Call**

The telephone call is a comparatively mild collection measure—good for the ordinary slow account, but of little avail for really hard cases because of the facility with which the debtor may shut off its importunities when they become annoying. For the ordinary overdue account, however, its effect is as good as a personal interview. Indeed, when the telephone message comes from one of the more important officers of the concern it may be even better, as having greater weight than the personal call of a collector, who at the best is but a subordinate.

The telephone call is not always available. There must first be a telephone through which the debtor may be reached, and, second, there must be a certain willingness on his part to listen, or an ability on the part of the other party to compel him to listen, as otherwise the debtor will bring the conversation to an abrupt conclusion by hanging up the receiver.

The telephone call may be used at any stage of a

collection, serves as a convenient reminder on the due day of an account if a remittance does not come in promptly, and is equally available if the matter has dragged along for months with promises broken, letters unanswered and collections practically defied. The matter can be discussed over the telephone with all the freedom of a personal interview. An explanation of the delay may be asked, the importance of prompt payment be urged, and the whole matter gone into with as much detail as the circumstances seem to warrant. Persuasion, entreaty, and even abuse may be used. Matters that could not be written without danger of a suit for libel, or blackmail, may safely be talked over the telephone.

It is easy, under such circumstances, to make a very strong appeal for money without possibility of offense—an appeal which the debtor will find it difficult to resist. Here, however, comes in the great defect in a telephone collection call: the money cannot be secured then and there. The debtor's mind may be brought up to the point of payment; the most sincere promises may be secured; but the actual immediate money cannot; and this must await the chilling effect of the debtor's sober second thought. If the debtor has been brought to the paying point the collection manager may, of course, suggest sending at once for the money; but, if this is not feasible or not acceptable to the debtor, he must await a remittance—a remittance which may be long in coming.

### **The Registered Letter**

Where a delinquent debtor pays no attention to letters and is not accessible to personal calls or telephone communication, the registered letter may occasionally be

used to good effect. This letter calls attention to the fact that other letters have not been answered, or states the condition of the account, with any other details or circumstances which may assist the collection.

The effectiveness of the registered letter is due to its semi-official character. Registry is formal and unusual; and when the delinquent debtor receives a registered letter in reference to his account he will, in most cases, conclude that the matter is becoming serious, and that there must be more to it than appears on the surface. He knows that the letter was registered, and that he has signed a receipt for it, but does not know why this was done, or what use is to be made of the receipt. His imagination is then apt to prove a valuable ally for the collection manager.

It is always a distinct point gained when a delinquent debtor can be brought into personal touch, and into a formal recognition of the fact that his debt exists; and this the registered letter will in most cases bring about.

### **The Telegram**

In any written communication relating to an indebtedness much care must be taken, as already stated, to avoid liability under the laws against libel and blackmail. Anything written is in black and white; and, if it steps beyond the limits of the law, the sender has himself supplied proof for his own conviction.

This caution is still more imperative with regard to an open communication, such as a telegram, than with a letter, for here the lines are much more closely drawn. The telegram is in a sense public property; and about

all that can safely be brought into it is an inquiry as to when a remittance may be expected.

If, however, the telegram is used at the proper time, it is sometimes very effective, weak though its wording must be. Perhaps a special letter has been written, strongly urging payment of the account in whole or in part. The telegram may then be used as a follow-up, though in form perhaps merely a reminder, such as: "Wrote you on the 25th. When may we expect a remittance?" Or it is sometimes used effectively where a delinquent debtor has sent in a bill for further goods, when a telegram goes forward: "Order received. We cannot ship until payment has been made on overdue account. When will you remit? Answer." Or the telegram may be used independently, as: "We must have \$50 today. Can you send it? Answer."

In any of these cases the telegram undoubtedly does have an "urgent" effect. The fact that it is ordinarily used only for emergency business of an immediate or exceptionally important nature gives it more weight than other forms of communication possess. The cost is small, and, if there is any prospect of its producing results, it may well be tried.

### **Follow-Up Drafts**

It has already been suggested that in cases where the creditor's draft is returned unpaid, a second draft may be sent out immediately, and will occasionally produce results. It should be accompanied by a letter from the creditor, mentioning the return of the first draft, and taking for granted that this was due to some misunderstanding on the debtor's part. This is desirable, first as



giving opportunity for some good collection talk, and second to prevent any misapprehension on the debtor's part that the second demand is merely an accidental repetition of the first. Such a letter will also impress the debtor with his creditor's persistence; and this effect of harrassing persistency is increased by sending the second draft to a different bank, as the debtor then feels himself attacked on all sides, and, being uncertain as to how far this process may be carried, fears the effect on his credit—if he has any.

### **Instalment Collections**

An overdue account may sometimes be secured piecemeal when it cannot be secured "in bulk." In cases of this kind, where the debtor is either unable or unwilling to pay the full amount, the collector may suggest that payment be made on the instalment plan. His argument for this course has no weight with the professional deadbeat; but with the ordinary debtor who is merely in a hard place, it is sometimes very effective. He suggests that the full amount is more than the debtor can be expected to pay at one time, but that, of course, he wishes to clear off the troublesome indebtedness as soon as he can, and that a payment of, say \$1 a week, or so much a month, or any other arrangement that may suit the particular case, would be the proper way to meet the obligation. This suggestion, if tactfully made, and adapted to the circumstances of the debtor, will frequently be successful.

### **Offer of Concession**

A method somewhat akin to the foregoing, and sometimes employed with success, is to make a concession for

immediate payment. In such case, the collector pleads a special emergency requiring cash—so pressing an emergency that it must be had at any cost, and therefore his concern is willing to settle up the present indebtedness for a sum so much below the full amount due as to make the proposition attractive. When this is done, it gives the collector a new argument, *i. e.*, the benefit to the debtor. "Here," he says, "is an opportunity to clear off this long outstanding and troublesome indebtedness for but a portion of its real amount. It is in fact a bargain offering. Here is a \$25 indebtedness that may be settled with a \$20 bill. How could \$5 be made more easily?"

The money-saved argument has no weight with the "deadbeat" debtor who is trying to avoid payment of the whole; but with those who really intend to pay at some future time, it is usually effective, though a bad precedent to establish.

### **Discounted Notes**

It is a fact that a bank can secure payment of a claim where an individual or a firm cannot, as its semi-public position gives it much greater weight than appertains to individuals and ordinary business concerns. If, therefore, a claim is in the form of a note, or can be placed in the form of a note, and this note is discounted or deposited with the bank for collection, it is more likely to be paid than if left in the form of a bill, or presented by the individual or concern to whom it was given.

It is frequently possible to secure a note in settlement of a claim when, at least for the time, it is absolutely impossible to secure cash. This note is more likely to be paid than the open account; and, if it is deposited with

the bank for discount or collection, the chances for payment are better still.

### **Credit Threats**

In collection work threats must be used with much discretion, or they may involve the creditor in very unpleasant legal entanglements. The credit threat, however, is hardly of this class. In this case the creditor writes stating that he is a member of some credit association, which requires its members to report all bad debts. He therefore finds himself in an embarrassing position, as he does not want to report his customer, and yet fears trouble with the association if he does not, the debt having run so long. He may touch incidentally upon the disagreeable results for the debtor if this report is made—not in a threatening way, but merely as a matter of fact in connection with the operations of his credit association. Under these circumstances he asks the debtor to come to their mutual relief with a payment. The method is frequently successful, though not recommended.

### **The Black List**

This is similar to the credit threat. A personal letter is written to the debtor, stating the amount overdue, and informing him that the writer is getting out a "black list" for the mercantile reporting agency, that he feels sure that the debtor does not wish his name to be included in this list, and that he therefore trusts the debtor will remit at once in settlement of his account. This will often be effective, as the debtor naturally does not wish to go on record as a bad credit risk, and does not know how widely his delinquencies may be published if he refuses

to settle. On the other hand, the plan must be used with caution, as in some states the law in regard to collection of debts is so strict that such threats are blackmail, and render the user liable to heavy penalties.

### **Sending Out the Boss**

This method is somewhat akin to that of the collection letter signed by the president or other high official of the concern, used as having greater weight than the ordinary communication. A call is made by one of the proprietors or officials of the concern. The method is, of course, available only where the debtor is reasonably close at hand and accessible to personal calls, and where the amount is sufficient to justify the effort.

If the creditor concern is a partnership, one of the partners goes out, or someone else well up in the counsels of the firm; if a corporation, one of the higher officials makes the call. In either case, the effect is entirely different from that produced when a collector calls. The proprietor or the official of the concern cannot be treated like an ordinary collector. He carries a weight and an influence that is very effective, and, if he is at all tactful and able, his call will usually produce payment, or, if payment cannot be had then, will establish relations and an understanding of the conditions that will eventually result in payment.

### **Turning Accounts Into Judgments**

An open account expires after a certain time, the period—fixed by statute—varying widely in the different states. The statute begins to run from the time the debt is incurred, or, if there have been payments upon it, from

the time of the last payment. If, therefore, payments—even very small ones—can be secured from time to time, there is no danger of the claim expiring by limitation. If, however, no payment or written recognition of the debt can be secured, suit should be brought before the time of expiration.

When suit is brought and judgment obtained, this judgment has a life of its own, also fixed by statute, and varying in the different states; and the claim is secure for this period.

Occasionally, where suit might be embarrassing to the debtor, and he is willing to acknowledge service of notice, though he is not willing or not able to pay the account, suit is begun; but after service has been obtained on the defendant, the matter is allowed to drift along. In this way an account may be kept alive for years; in fact, it does not expire by limitation, and can be brought to a conclusion only by the debtor's appeal to the courts for a dismissal. Under such an arrangement, the creditor can appear in court at any time, show that the long-continued suspension of proceedings was by mutual consent, and proceed with his suit.

### **Writing to Friends**

Writing must be indulged in with discretion when the collection of debts is the subject matter. When, however, a delinquent debtor refuses to answer communications, and the creditor concern has or can secure the addresses of friends, references or connections of the debtor, it is sometimes very effective to intimate to him that, if no response is received to the letter, the concern will

write to one or more of these persons—merely, of course, to secure information as to the debtor's whereabouts.

This will often bring a reply; but, if it fails to do so, it is then entirely allowable to write to these other parties, stating that the delinquent is indebted to the concern, that letters written to him have received no attention, and asking for information as to his whereabouts. This proceeding may bring a certain amount of pressure to bear upon the debtor which will lead to payment of his account. It may happen, also, that friends or relatives will pay such an account themselves, rather than allow the matter to become public—and this is especially likely if the debtor has resorted to underhanded or fraudulent means of evading payment.

As an instance of the successful use of this method, the case may be cited of a western music house which sold a piano on the instalment plan, securing itself by chattel mortgage. The instalments were paid in whole or in part for a few months, when it was discovered that the customer—who was a woman—had borrowed \$100 on the piano, giving a chattel mortgage to secure the loan; and that this second chattel mortgage had been placed on record, thus taking precedence of the purchase money mortgage, which had not been placed on record.

The customer's act was, of course, fraudulent, and might have been made a very serious matter for her, but this would not have saved the music house from loss. The collection manager had, however, in the course of the transaction, secured the address of the lady's mother, and at this juncture telegraphed her to come at once, as her daughter was in serious trouble. The telegram was signed with the name of the music house. The mother

came, called at the music house, and, after the serious nature of her daughter's offense had been explained, paid the \$100 which had been borrowed on the piano, and the instrument was thereupon returned to the firm.

### **The Awkward Call**

This is an unpleasant but frequently effective method of collecting bad accounts. A festivity is perhaps in progress at the debtor's house. The collector, having ascertained this fact, calls, inquires for the debtor, and, if he can secure an entry, presents his account and insists on payment. The debtor naturally demurs. The collector insists more urgently and more loudly; the attention of the guests is attracted; and the debtor naturally finds the situation very embarrassing. If he be strong of mind and muscle he will occasionally make it embarrassing for the collector, and add to his friends' entertainment by a number not scheduled on the original program. Barring such unhappy incidents, however, the final result of the call depends entirely upon the ability of the collector and the financial resources of the debtor. If the collector is persistent, and refuses to be daunted by threats or cajoled by promises, the money, in whole or in part, is very apt to be forthcoming.

The collector may vary this proceeding in several ways. He may present his bill when the victim is attending an entertainment in the house of a friend, or he may interrupt him in the middle of an important business interview. If the debtor is an employee, the presentation of the bill at his place of employment may be resorted to, but, as this might result in the employee's discharge and thus incapacitate him from paying the debt, a threat

of resorting to this measure may be more effective than its actual fulfilment.

### **The Sweating Process**

This is another variation of the awkward call, and requires a collector of good conversational powers, considerable nerve, and, preferably, some physical ability. He calls with the overdue account at the debtor's house, and simply stays there until he gets his money, or becomes convinced that no money is to be had. As may be imagined, the process is a disagreeable one for both collector and debtor. Argument, persuasion, threats, and discussion are all used according to the conditions, until either collector or debtor becomes exhausted and gives up.

This method, of course, requires some judgment in its use, and is available only with a certain class of accounts; but with these it is very effective.

### **Combining Accounts**

Sometimes, when a single account is too small to justify the creditor in taking legal action, he may get other creditors of the particular delinquent to join issues, so that the combined amount is enough to justify such action as may seem best. As debtors of the "deadbeat" class will owe money in many different quarters, this is usually a simple and very possible plan, and is sometimes productive of excellent results.

### **Garnishment Proceedings**

It very frequently happens that the debtor has concealed property, debts owing to him, or perhaps wages due him; and, if these can be discovered, garnishee pro-



ceedings may enable the creditor to liquidate his account. The method is one requiring some detective ability in tracing the property or debts of the delinquent, and also a certain degree of acquaintance with the law of the particular state; but it is frequently productive of results.

Its possibilities are illustrated by the case of a doctor in very excellent practice, who had money, but did not consider it necessary to use this to pay his debts. The doctor owed \$75 to a medical supply house, which the concern was entirely unable to collect, and they finally placed the matter in the hands of a collection agency. After a study of the conditions, a representative of the agency called on the doctor in the character of a patient, and after the consultation pulled out his pocket-book to pay the doctor's fee, but on looking into it found that he had not the necessary amount with him. Accordingly he asked the doctor for a blank check, and when this was furnished, he filled the check in properly, inserting the name of his own bank, and turned it over to the doctor in payment. He had, of course, noted the name of the doctor's bank, and on garnisheeing this bank it was found that the debtor had a deposit there of over \$600. The collection was made without further trouble.

### **Supplementary Proceedings**

When a claim has been turned into a judgment, the debtor may, in most states, be brought before the court on supplementary proceedings, and be forced to make a full disclosure of his financial condition. It is but seldom that a debtor, especially a "deadbeat," is actually penniless, or unable to secure money; and these supplementary examinations may, on occasion, be made so searching and

so disagreeable that he will choose payment of the debt as the lesser evil. They sometimes reveal facts not only embarrassing but incriminating, or of such a nature as would prevent the debtor's discharge in bankruptcy proceedings if he should at any time wish to resort to them.

A small account is, of course, not worth following so far; but where large amounts are involved, a rigorous examination, perhaps repeated from time to time, is worth while, and is frequently productive of results.

## APPENDIX

### COLLECTIONS AND CREDITS FROM THE CREDIT MAN'S STANDPOINT\*

#### COLLECTIONS AND HOW TO HANDLE THEM

##### *(Article I)*

By John L. Bergman, of Pass & Seymore, Inc.,  
Solvay, N. Y.

The collection of accounts is the test of credits. A credit manager's judgment is vindicated, in extending a doubtful credit, provided he can collect the account; and a good collector can do this if he has properly established the extent of the risk taken in extending credit.

A good collector is a combination of nearly all the requirements which make the live business man. He must be resourceful in methods, diplomatic, courteous, and withal capable of drastic, kind, severe, generous, relentless or amiable moods, in fact, of every temperament that fits the particular requirements of the task in hand, when he undertakes to separate his debtors from their money.

A method that works well with one debtor may fall flat with another. A method that builds business through courtesy and kindness with one man may, with another, result in loss of money. Therefore permit me to say with emphasis, "Know your debtor."

\*The entire material of this appendix is taken by permission from the  
Bulletin of the National Association of Credit Men.

To know the debtor, the credit man should have before him, so that he may see it at a glance when he writes his customer requesting payment of his account, all there is to know relative to the latter's financial responsibility and integrity; also a history of the business conducted by him, and of his rise and fall from a business viewpoint.

This may be accomplished by the use of cards, size five by eight inches being most convenient (see accompanying form). Use one side of the card for complete credit information and the other for collection record. These cards should be kept alphabetically arranged in a cabinet consisting of four drawers, labeled: Prospective, Active, Collection, and Inactive.

Some credit systems involve so much writing and duplication of work as to render their use burdensome. To avoid that objection was the purpose I had constantly in mind in originating the system I am about to describe.

Most business houses send out their statements at the end of each month. When these end-of-the-month statements reach the credit department the credit record card for each is removed from the drawer labeled "Active," the amount of the account recorded thereon by months, and the card placed on the credit manager's desk with the statement and file of correspondence.

Statements covering accounts not due are placed in a mailing basket to be posted without comment. Accounts due are accompanied by a courteous letter requesting verification, or urging that, if there be any errors, the house be notified at once, so that the matter may be investigated and proper adjustment made.

The credit manager need only mark opposite the

account written about, the date and character of the letter written. When their letters come to the credit department for signature, the cards are returned with them, and are then filed chronologically in the drawer labeled "Collection," behind monthly and daily guides, so that they will receive attention at the proper time.

A notation is made on the card each time a letter is sent, and if answers are received and promises of remittance made, that information is recorded, and the card filed ahead to the correct date.

As the letters of the alphabet are printed at the top of each card, and adjustable guide placed over the letter, the firms whose names begin with the same letter are in a line, and any card desired may be located instantly.

Every morning the cards which should have attention on that day are sent to the accounts department, where remittances received or credits allowed are recorded thereon. The cards are then passed on to the filing department, where the file is taken out as in the beginning, and placed upon the credit manager's desk.

In case the account has been paid since the first letter, the card is immediately returned to the credit department, and filed in its proper place for reference and further use.

Should remittance or response fail to put in an appearance within a reasonable number of days, another letter is written drawing attention to the overdue account and unanswered letter. This second letter is written with the inference that there is undoubtedly some good reason for the delay; and it requests that, if this delay is caused by any matter in connection with which the house may render assistance, there be no hesitancy in taking it up at once.

This usually brings an answer; but should it be ignored, a third letter is written in which the customer is told that, failing to hear from him, anxiety is felt lest he be experiencing some serious crisis in his business; and he is urged to write a letter of assurance so that the matter may not continue a subject of concern.

Failing to receive answer to this communication, another is written in which it is stated that draft will be made at a near date through the customer's own bank, but the date is put far enough forward to give the customer a chance to prevent the sending of a draft. If he does not make any response, the draft is made; and the same day a letter goes to the erstwhile customer telling him of the action, asking payment of the draft as soon as presented, and hinting that should it be returned dishonored we may be compelled to resort to measures which might engender unpleasantness.

Not until all this fails is the account placed with an attorney, whereupon the records on the white card are transferred to a pink card worded and arranged precisely like the white one (see accompanying forms), which constantly warns the credit manager that he has had trouble with the account. The pink card stands as a perpetual danger signal. The amount is charged to "Suspense Account," and the card held to follow the attorney.

This system brings to notice each day those accounts that should receive attention, and reduces by one-half the labor of collecting. It works automatically, and takes care of the detail work connected with the collection department, with very little demand upon the credit manager's personal attention.

FIRM NAME <i>Famous Elec. Co</i>		ILL-CORP. 07-N-3½ = 3/5 FAN 09-J-4 = 7/3-LT?
SUCCEEDING <i>H.A.S. Stungum - alone</i>		BRADG-WE = 2/3 - 5.00
TOWN <i>Decatur Ill.</i>		STATEMENT 8/13-8
BUSINESS <i>A. Kolesale Elec. Sup.</i>		ANNUAL BUS. 4.2 M
FIRM MEMBERS <i>H.A.S. Stungum - 40 M. PRES C. O. Mrs. H.O.S. Secy G.M.</i>		ANNUAL EXP. 8 M
<i>Will Evadern - 57 M &amp; Treas</i>		ASSETS 6960.00
<i>Will Evadern Co - Grain &amp; Comm.</i>		LIABILITIES 3200.00
SPEC. REPORTS <i>12-07-8 Pres. fair. Risk OK for mod. auto. Avail auto smbl. bus. Mfg. little delay - too much big for Rep. Co is restrict. 11/09-B. No change - Rptd slow pay 8-13-07. Bought - Basement store - unkept - appear to do gd. big 17-09-Starr - Hold to terms Outfit not looked upon with favor by local job - HAS said to be tricky - Evadern OK</i>		ESTL NET WORTH 3 1/2 M
REFERENCE <i>7-07 Solid El. Mfg Co - Sold 2 yr - 30 - HC 150 - Slow - Out 6 7-07 One Lamp Co - St Paul - 6 mo - 60 - 200 - Pay OK - No Dry Battery Co - My - one bill - not due - men. agent - Insulated trim Co - Chic 1 yr - unkept - let acct to atty</i>		INSURANCE 3 M on stock
REMARKS <i>12-22-08 - Has called at Chic Off - ask Bragg about him at next salesmen's meeting.</i>		
CHGD. SUSPENSE <i>7/1-9-67.63</i>		ATTY. <i>6/13-9-67.63 - Dunn</i> CHGD. P. & L.

THIS SIDE OF CARD FOR CREDIT INFORMATION.





## COLLECTIONS AND HOW TO HANDLE THEM

### *(Article II)*

By John S. McCay, of Welsbach Co., Philadelphia, Pa.

Prompt collections are a vital feature of business, for no matter how great the volume of sales, the profits will not be in equal ratio unless collections are kept up to a standard consistent with the volume of business done. Profits in merchandising are made by quick turnovers of capital; but unless collections are promptly made, turnovers cannot be had as frequently as they should be.

Interest on capital consumed by bills being paid sixty to ninety days after they fall due instead of on their due dates, is an item of importance, so that prompt collection of accounts receivable is a matter which needs careful attention. It enables the executive head of the business to take advantage of discounts in paying bills, and affords him an opportunity to branch out and secure larger returns on capital invested.

The interest of the manufacturer or merchant in collections is not confined merely to his own business, but to the business of his customers as well, especially those seeking credit. Customers having an excessive amount of outstanding accounts based on yearly sales will likely be slow pay, and in some cases dangerous risks. A customer who keeps accounts collected closely will be more likely to discount bills from profits made, instead of an-

ticipating profits, as is frequently done where purchases are made on extended terms.

Each month in any business an estimate should be made covering cash that should be collected, in order to give the collection department a definite objective. The estimate is to be based on the outstanding accounts for the corresponding month of the previous year, collections for same month, the balance outstanding at the time of estimate, and existing conditions of the present year, for which previous month is used as a guide. This works out on a percentage basis, allowance being made for probable increased or decreased results according to indications of the previous month.

Each month a collection comparison is made with the corresponding period of the previous year, by taking the balance of the accounts receivable on the first of each of the two fiscal years, adding to each balance the sales to date for the respective years, and dividing each into total collections to date for each year. This shows how collections compare with the previous year on a percentage basis.

After statements are made up they are placed on the desk of the credit manager, who communicates with the debtors whose accounts require attention. Communications regarding accounts of customers are filed in a folder with credit information pertaining to them, thus giving a complete history of the accounts. The credit folder bears the same number as the customer's account, as a result of which the card index for accounts is also an index for credit information files.

To follow up letters the Credit Man's Diary is used, memoranda being made under the date on which cor-

response is to be brought out. A memorandum of the date placed in the diary is placed on the copy of the letter written the debtor, so that should it come out by payment or otherwise before that date, the diary is turned to and the memorandum crossed off, being no longer needed. This plan works automatically, making it unnecessary for the credit manager to tax his memory with details; it also keeps his desk clear of matters of this character.

Every ten days, or as frequently as necessary, the ledgers are gone over to note the condition of each account. Account cards are carried in trays, and such accounts as should be noted by the credit manager are automatically brought to his attention by standing them on their sides, so they will appear above the other accounts; and the tray is then placed on his desk in order that he may go over the cards and give each such attention as is needed. This also reduces the work of the credit man.

Many concerns have found that the collector does not accomplish as much as correspondence, as he often has to make several calls before seeing the proper party, whereas letters usually reach the desired destination.

It has been found advisable to avoid using printed or typewritten forms in series; a debtor who has once gone through this process knows as much about it as you do, and will wait until the last form is received before giving the matter serious consideration.

Collection letters should be short and diplomatically worded in order not to offend the debtor, for it is hard to accomplish anything when he gets into a disturbed frame of mind.

Where extensions are asked, it is usually advisable to grant them, provided you are convinced it is desirable, but they should be made in the form of interest-bearing notes. If the account is large it is better to take several notes falling due successively, rather than one note for the entire amount, risking chances of its not being paid at maturity.

Optimism is a necessary adjunct to the collection department. It is unwise to feel an account will be lost simply because it has become slow, or has assumed larger proportions than the responsibility of the debtor seems to warrant. If the credit manager becomes pessimistic, the chances are that recipients of his letters, who are already discouraged on account of adversity, may take on an additional amount of pessimism and be fit subjects for bankruptcy.

It is frequently advantageous to attach the stamp of the Credit Men's Association to letters of the collection department. This shows the debtor with bad intentions that his creditor is a member of that organization, and he assumes that the member's collection experience will likely be furnished to other inquiring members.

When an account is placed with an attorney the credit folder containing all information regarding it is taken out of the credit information file and placed in a vertical file containing accounts in the hands of attorneys, the account card of the customer being marked "No further credit." A large red "A" is also placed on the account, indicating that it is in the hands of an attorney.

The folders are filed numerically, original card of customer still serving as an index by marking it "Attorney's File."

## COLLECTIONS AND HOW TO HANDLE THEM

### *(Article III)*

By Leon Joseph, of Wilmerding-Loewe Co.,  
San Francisco, Cal.

Collecting in person in home cities or towns where the creditor's business is located, collecting by traveling men, collecting through the mails, and with the aid of attorneys or collection agencies—such are the various methods of handling collections.

Personal collecting is almost altogether a matter of individuality. Good collectors can handle each phase of a case as it presents itself, just as the traveling men who are entrusted with collections can oftentimes protect the house in profit and loss accounts by taking quick legal action when they are on the ground. Yet the long-distance method is the only one used by a great majority of business concerns, and among the various reasons for its use, not the least is the difficulty of obtaining men who are good salesmen and collectors combined.

Few office managers care to hand accounts to attorneys or collection agencies; but this step must be considered when discussing "handling collections," for the phrase is really synonymous with "getting the money"; and that process very often calls for the assistance of the law.

Let me now present the mechanical methods mentioned, in order to give a full and accurate grasp of the

various steps pertaining to prompt and efficient collecting. These steps I have divided into seven parts, as follows:

1. Sending statements when accounts are due (to secure uniformity, sending them on the first, or first and fifteenth).

2. Second statement to follow in fifteen days, marked "Second Statement."

3. If statements remain unheeded, a letter is to be written calling attention to the two statements previously sent, and asking for a remittance.

4. Second letter is sent if the account is still unpaid. Refer to first letter and advise that if account remains unpaid in ten days a draft will be drawn.

5. Above date arriving, and payment still not made, the draft is drawn through bank or express company, accompanied by letter asking protection for same.

6. If draft is unpaid and returned, write letter reviewing general facts in case and steps taken to collect, and advise that account must positively be settled by return mail, or other and stronger steps will be taken to force collection.

7. No answer to the last letter being forthcoming, advise that account will be handed to an attorney for enforcement of collection if not settled within certain period (making allowance for mailing time to and from customer).

To keep track of these various steps use the following form of daily reminder book, so ruled that the names of parties to whom the various letters are to be written are placed in the numbered columns corresponding to the above schedule;

February 25, 191—

3	4	5	6	7	Posted to record book for accounts given to attorney for collection.
					Page

In conjunction with this schedule use the following ruled book for all accounts placed in the hands of an attorney or collection agency for settlement:

Name of account.....	Name of attorney.....
Location.....	Location.....
	Date of placing account.....
Transcript from Ledger	Legal steps taken.....

[illegible]

There can be no set form given for the letters written in connection with the above. In order to be effectual, each letter must of necessity be one that will reach the mind and the pocket of the particular man addressed.

1. *Phragmites* (Common Reed)

The following form of ledger ruling will greatly assist in putting the office manager in possession of all the steps taken in handling collections on any particular account:

APPROVED FORM OF LEDGER RULING, WITH SPECIAL  
COLUMN FOR COLLECTION DATA

Account No. 34. Dun.....  
Name—James Watertown. Bradstreet.....  
Address—Waverly, Tex. Reports.....  
Terms—Net, 30 days. Limit—\$400.

Coll.	Date		Dr.	Cr.	Bal.	Coll.	Date		Dr.	Cr.	Bal.
	1910				90.00						
S. 3/10/10	Feb. 1		90.00		171.00						
2 S. 4/10/10	Feb. 15		81.00								

The extra column marked "Collections" is used by the bookkeeper for the purpose of noting what steps have been taken in the collection schedule, as follows:

When first statement goes out, he writes in pencil.... S. 2/15/10  
Second statement..... 2 S. 2/28/10  
First letter..... L. 3/10/10  
Second letter advising that draft will be drawn..... T. D. 4/5/10  
When draft is drawn..... D. 4/15/10  
If account is given to an attorney..... Att. 5/15/10

Thus when the account is looked over it not only shows the debits and credits, but also what steps it has been necessary to take in order to make collections.

Where the salesmen attend to collections on their trips, statements of all open accounts are gone over by the salesman and office manager, and written into this form of ruled book.



## SALESMEN'S TRIP BOOK

Customers' Names	Location	Date of trip		Remarks	Date of trip		Remarks
		Amt. of Account	Paid		Amt. of Account	Paid	

The accounts are talked over and instructions given to the salesman for those doubtful and overdue. As remittances come in from the salesmen while on the trip, they are credited in this book (this has nothing to do with the crediting of these same accounts in the ledger) and, upon the return of the salesman, he and the office manager go over the accounts covered together; and upon the salesman's report, the office manager takes such action on bad accounts as seems to be warranted.

In addition to the above scheduled steps and forms, a few aids to collection service are here shown.

Upon the receipt of a remittance from an account, leaving a balance still overdue, the following is stamped upon the letter containing the remittance:

The balance of this account is \$....., of which \$..... is over four months.

Stamped on statements—

This account is overdue. If the same is not paid within ten days from date, we will draw on you for the same.

In order to keep the collection manager in constant touch with the various details influencing accounts, the following monthly list of customers who have made complaints for shortages or overcharges is useful, for the reason that it very often shows up the chronic kickers.

#### MONTHLY ACCOUNTS OF ALLOWANCES AND RETURNS

Customers' names	Location	Returned goods				Claims			
		Goods returned	Date of original shipment	Reasons for returning	Amount allowed	Original shipment	Amount	Nature of claim	Amount allowed

When the trial balance is drawn off monthly the bookkeeper should list all overdue accounts on the following form:

#### BOOKKEEPER'S MONTHLY LIST OF OVERDUE ACCOUNTS TAKEN FROM TRIAL BALANCE

Month ending.....

Customer's name	Location	Amt. of account		Amt. past due		Remarks

This serves to keep the office manager well posted on the bad accounts, and is a constant reminder to keep after them. Doubtful accounts are usually given a credit limit.

Whenever the account approaches this amount, the following form of card is filled out by the bookkeeper:

## LIMITED ACCOUNT CARD

Account limited to \$250.	
Name—Wm. Weber.	
Location—Millstown, Pa.	
Ratings—Fair.	
Reports—Fair.	
Total due on accounts.....	\$246.19
Amount overdue.....	86.24
Bought last 6 months.....	497.18
Paid last 6 months.....	64.20
Date last payment—1/26/10.	
Date—2/16-10.	

This notification serves a twofold purpose, for when the account seems to be going behind it causes the manager to start a vigorous collection campaign to get it into shape, and also it warns him to either raise or lower the credit limitation according to the manner in which the account has worked out since the opening date.

Handling collections successfully calls for harmonious and intelligent combination between the office manager and the accounting department, and the mechanical steps and forms here shown are designed fully to cover the work. The question of *forcing* collections, however, is one that must be answered by the person in charge according to the meat of the account, an intelligent reading of the debits and credits of the ledger page being an absolute necessity.

## COLLECTIONS AND HOW TO HANDLE THEM

### *(Article IV)*

By Joel B. Thompson, of Janeway & Carpenter,  
Chicago, Ill.

The collection department of a mercantile business should be under the exclusive supervision and control of the credit manager. In these days of intense competition there is no department of the establishment where a blunder may prove more costly. A credit manager can no more make an error in his own, or in the collection department, than a train dispatcher. He cannot begin over again like an artist or a writer, but is required to do perfect work every time. Therefore, only a simple, practical, elastic, everyday system that produces results can be used.

\* \* \* \* \*

The writer submits a plan of collecting evolved from his experience of over twenty-five years, adaptable to any mercantile business, small or large, and exhibits in Form "A" a specially ruled ledger page, by the use of which the time of both accountant and credit man may be economized.

This form of ruling enables a credit man actually to see, pictured on the ledger page, a complete history or synopsis of the manner in which an account has been

treated, as the blank space at the right of the account exhibits fully all work done in effecting settlements of due, or overdue, amounts. All questions are also settled at once (without consulting collection cards or copies of statements or letter impression copybooks), as to just when, and for what amounts, statements were sent, notes mailed for signature, drafts made, extensions requested, rebates (of any nature) claimed, what bank a customer uses, highest credit at any one time, latest commercial rating, principal orders secured by salesman, and date when, or any special information from salesman, commercial agencies, or others, thus becoming a veritable guideboard for a credit man, enabling him thoroughly to utilize the labor, methods and knowledge the accountant and collection clerk have displayed and recorded, and hence greatly facilitating the formation of correct conclusions relating to credits.

By the side of his open debtor's ledger, the collection clerk uses Form "B," a specially ruled "collection tickler," eminently satisfactory where there are a large number of accounts, and a perfect substitute for theoretical card forms. To prepare Form "B" for use, begin at page one of any debtor's ledger, examine the first open account, and if one of a group of invoices will mature within the time limit of the record (generally thirty to forty-five days), or is past due, a record is made of folio, initial of account, and date when any action is necessary, under one of these headings—"Statement," "Write," "Draft."

Each consecutive ledger page is examined and a record made on "collection tickler" under its proper heading, in case any invoice, or group of invoices, is due. Going through the debtor's ledger monthly in this manner takes

but a short time, and where several debtors' ledgers are in use, let several days elapse between dates of preparing the "ticklers." Then daily, semi-weekly, or weekly, as convenient, all due accounts can be dunned, it being necessary only to open the "tickler," refer to the indicated ledger page and do what is necessary, making a record on the ledger, and placing a date ahead on the "tickler" when further action will be needed, if within the "tickler" runs. If not, the next month, when preparing your "tickler" period, the record on the ledger page ("memoranda column") will indicate what further action is necessary and when. A dunning record is thus continually growing on the ledger page which in time becomes very valuable, for by it the financial position of any customer can be read at a glance, and generally it can be predicted from the past record what can be expected in the future, also the dates when customers will usually settle, or when extensions will probably be requested, etc.

Explanation of Form "A"—Roe and Doe having failed to protect their note due February 1, 1908, it is a second time, on February 15, 1908, sent direct to their bank, with a request to collect in instalments, if necessary, and on March 4th, both debtors and bank are written.—On March 12, 1908, an extension of four to six months is requested, and note recalled, and returned by bank.—May 28, 1908, a statement is mailed, and a draft made for \$30 at 10 days' sight, which is paid June 15, 1908.—July 10, 1908, a statement is mailed for \$78.12, and a draft made at 10 days' sight for \$30 on account.—This item is returned unpaid July 18, 1908, endorsed, "No attention," etc.—July 24, 1908, a draft is made for \$30 at 5 days' sight, which is paid July 31,

1908.—August 31, 1908, statement is mailed, as requested, for balance due with interest, and draft, with note attached, is made, which is paid September 14, 1908.

The salesman receives a carbon copy of all letters mailed to his customers, relating to credits or collections.

FORM "A."

DATE		N. & V. S.		ROE AND DOE (Salesman)		COLEMAN, TEXAS		MEMORANDA.	
				Posting Folio	Dr.	Cr.	Dr. BALANCE	Cr. BALANCE	
1908		As	P 8						COLEMAN NAT. BK.
Aug.	1	✓ Oct. 1-4 M.	612	✓	108 15		108 15		2-15-09—Wt. & No. 1000 to Bk. to collect in payments. Recalled 3-26-09 Ret. 3-23-09 7-20-08—Phelps. \$107.00 as 10-1-4 m.
Dec.	27	B/R No. 10025 #1	11	100	✓	108 15			3-4-09—Wt. R. & D. Amr. Bk. 3-10—Ash Extension 4 to do. Not later doing till grain crop is sold
1909		B/R No. 10025 #1	11	247	✓	108 15	108 15		5-28—St. 108.15 & Dft. 10 da \$30.00. Paid 6-15.
June	15	Cash Pd Draft...	141			30 00	78 15		7-10—St. 78 15 & Dft. 10 da. \$30.00. Returned 7-18 No attention.
July	31	" "	163	✓	→	30 00	48 15		7-24—St. & Dft. & Note — As requested. 42.75 (Int. 1.64) Paid 9-14.
Sept.	14	Tot Int. 11.	170 30	✓	1 63	49 75		1 63	

Italics for red ink items.

FORM "B."

LEDGER "N" P-8 MAR.-1 TO APR.-1-'09			STATEMENT	WRITE	DRAFT
1088	R. & D.	ex.		✓	
Left hand page Right hand page is similarly ruled					

## FILING OF COLLECTION ITEMS

By C. W. Hughes, St. Louis, Mo.

Of late years cards, or more properly speaking, the card system, has become almost indispensable in the well regulated and up-to-date office. Cards have invaded every department. Their uses and methods of employment are too manifold to attempt to describe, but I want to show how they can be successfully employed in the collection department in conjunction with the credit department.

I know from experience that a long involved paper in explanation of a system is very confusing—in fact, the beginning is forgotten before the end is reached—and so I will endeavor to explain the system under which I keep track of collections in as few words as possible.

We will take up the matter from the receipt of the shipping ticket and order from the factory, from which point the system practically begins.

First the order goes to the entry clerk, who, when he has entered it in the sales book, makes out cards in duplicate, on one of which is the word "Cash." This card is sent to the collection department. On the other is printed the word "Ledger," which goes to the cashier, who files it in a drawer marked "Ledger." These cards are blocked alternately, "Cash" and "Ledger," so that by using a carbon sheet but one writing is necessary. On the ledger card are lines for the customer's name and



address, these lines being on the right-hand side of the card. On the left-hand side are lines for the due date of invoice, date of invoice, terms and amount. Underneath the address, and arranged in statement form, are the words:

Cash,  
Discount,  
Freight,  
Miscellaneous allowances,

the total of which should agree with the amount of the invoice. When remittance is received these various items are entered upon the card, which is given to the posting clerk to enter in the ledger, as we do not post direct from the cash book, only the daily total of postings being compared and the card retained by the posting clerk for future reference if necessary.

The "cash" card is the same as the "ledger" card only as far as the headlines are concerned—that is, name, address, memorandum of invoices and amount, which items take up about one-quarter of the card. Underneath this heading on the "cash" card is a line reading "Statement Sent." The balance of the ticket has lines for remarks—the first of these lines marked "Letters," the last one "Drafts." These cards are filed in a cabinet drawer under their due date, and if the account is paid (because of discount) before it comes due, the card is taken out and destroyed by the cashier. The cards are easily found on account of the due date having been placed on the ledger cards as previously mentioned.

Due.....  
 Date.....Terms.....  
 \$.....

Remarks	
CASH	Statement sent.....
	Letters.....
	.....
	.....
	Draft.....

Due.....  
 Date.....Terms.....  
 \$.....

Remarks		Paid	
Balance.....	Cash.....	.....	.....
.....	Discount...	.....	.....
.....	Freight...	.....	.....
.....	Shortage...	.....	.....
	Total....	.....	.....

The due date file is referred to every day or so, and statements sent out from the cards two or three days before the accounts become due, the date of sending the statement being placed upon the line marked "Statement Sent." This card is then transferred to another drawer marked "Past Due Accounts," this drawer being arranged alphabetically.

Before statements are sent out these cards are always compared with the ledger to see if the account has been paid, or to make sure that through some oversight the card was not removed from the file. This system keeps the "Past Due" and "Not Due" accounts in their separate compartments.

As we do not send out statements on the first of the month, but only as the accounts become due, I place certain signs or figures after each item in the ledger when statements are sent, customers written to, or drafts drawn. By this means I can tell at a glance by referring to the ledger how the customer pays his account, whether discounting, paying on receipt of statement, or draft, or if draft is returned unpaid, etc.

Should an invoice become due before a previous one has been paid, the word "Over" is stamped upon the face of the card, and the past due invoice transferred to the back of the card, under which is placed the date and amount of the invoice just coming due; and a statement is sent for the past due and maturing invoices.

By the signs and figures on the ledger you can determine if the statement has been sent, and therefore find the card in the "Past Due" drawer. I have no certain hours or time to go through this "Past Due" drawer, but at every opportunity run over as many accounts as possible, using a shifting card to designate the point where I was compelled to stop and commencing there at the next opportunity.

Before writing regarding past due accounts, the ledger is always referred to, for two reasons—first, to make certain that the account has not been paid, and the card overlooked, and second, in order that I may keep closely in touch with my accounts. This is especially necessary in our business, because we ship from St. Louis, as also from several eastern plants, billing from each.

When going through the cards in the "Past Due" drawer, accounts are found in which no attention has been paid to statements or letters. They are either drawn

upon, or a letter written stating that draft will be made on a certain date if remittance is not received prior to that date—the date of the letter and date on which draft is to be made being placed on the line marked “Letter,” and the name of the customer placed on a calendar pad (I use this in preference to a tickler as I find it more convenient). The card is then returned to the “Past Due” drawer.

When the date mentioned has arrived and the account has not been paid, a draft is drawn, and the name of the bank, with the date, entered on the line marked “Draft.” This card is then transferred to a drawer marked “Drafts,” to await either check or return of the draft unpaid, as we have printed instructions to the bank on a perforated slip attached to the draft, for the bank to hold a few days if prospects for collection are good. A reasonable length of time is allowed, and if nothing is heard regarding the draft, the matter is taken up with the bank. This occurs very rarely, and is only occasioned by the draft being mislaid by the bank or miscarried in the mail.

Our system has been found very satisfactory, as it keeps us continually in touch with the past due accounts. It is rapidly worked, and in fact the explanation of the system is the most intricate part of it.

## THE CREDIT MAN'S STANDARD OF EFFICIENCY

By E. W. Storey, in the *Philadelphia Creditman*  
(In part)

The credit man should be a student in his line of business—be it what it may—who studies the relation of the profit to be earned to the risk taken. Wise business men have been known, because of the profitable character of a certain line of goods, to take long chances on the credit end, and have thus made money. On the other hand, the wise business man who knows that his margin of profit is so slim that his turnover must occur at least every ninety days, does not take on credit accounts when he knows he cannot get his pay in five or six months, even if the prospective customer is, as the old familiar saying goes, "good as wheat." And now we have just reached the real essence of the subject, namely, the consideration of terms vs. credit responsibility; and it is a subject that is shamefully neglected, as evidenced by the practice of rendering credit accounts once a month instead of rendering the separate bills as they fall due.

No credit man can claim the highest degree of efficiency until he collects his bills as soon as they are due (with reasonable allowance for meritorious extension) and as much sooner as possible, consistent with the preservation of profits, by which is meant avoiding the allowance of excessive discounts to encourage payments before bills are due.

How can any credit man defend the time-honored practice of monthly rendering as compared with the more modern method of rendering bills as they fall due? The following is a simple illustration of the loss sustained by the use of the monthly rendering: A bill of goods is shipped and invoiced, say, on the second day of the month, terms sixty days. Now that bill will be rendered twice by those who render everything due and not due, before it is actually due; while by those who render once a month bills only which are due, it will not be rendered at all until twenty-eight days after it is actually due.

To make our case strong, let us presume that we are considering gilt-edged credits only. If we prove our case right in regard to these accounts it will be doubly right in regard to weak or doubtful risks.

Right here, undoubtedly, someone rises to repeat those old stereotyped remarks that come chiefly from a lack of investigation and therefore from a lack of knowledge:

"My customers require a complete statement monthly." Perhaps he adds that the average country dealer does not keep his books written up and needs a monthly statement to keep him straight; or, "My customers make it a rule to discount all the bills of one month on the tenth day of the following month. A commendable and quite common practice that requires a regular monthly statement."

To the first objection we would answer that it is a bad rule to encourage a dealer in slouchy methods; that we shall rather educate him to keep his books written up regularly; and if our attitude toward him is such as to require him to provide the necessary funds to meet a bill the day it falls due, or with five or ten days' grace

as a limit in all ordinary cases, it is commendable, to say the least.

To the other we would say that only a very small percentage of dealers discount all the bills of a previous month on the tenth or fifteenth of the following month, and that it is a bad rule to adopt or maintain a method that is beneficial only to a small minority of customers.

Why should a good credit customer help himself to twenty, forty or sixty days' extra time on a bill after it is due, any more than he should help himself to the cash in your till? It all amounts to the same thing in the end. The wise merchant keeps his capital working and does not tie it up even in good credit risks.

Credit is purely an accommodation, and when it is abused a polite note is in no way improper; and experience has shown that a gentle reminder at the right time is an excellent tonic for the chronic slow payer who is prone to let his accounts run unnecessarily long through outright slouchiness in business methods, or with the deliberate intent of using another's capital with which to do his own business.

How many wealthy manufacturers are actually acting as bankers at 6 per cent. for customers using capital that should earn the rightful owners 10, 12 or 15 per cent. in active circulation? Credit men as a whole should lend their support to a concentrated effort to get the money on bills when they fall due, but should not encourage the regular closing of accounts with thirty or sixty-day notes at 6 per cent.; that is a favor to be granted only occasionally, and when circumstances are such as to warrant it. Neither should they let a customer habitually get from one to twenty-nine days' extra time when he does not seek

or want it. Why not stop the little but myriad drains on profits by introducing the very best method of bringing in money, intact, at the earliest possible moment?

Again, someone may rise to say that the daily rendering of bills involves a complicated accounting system and a lot of inside red tape. That is not true. In fact, it is a method that should simplify inside methods and reduce the so-called red tape. Credit department methods are a subject worthy of careful study, just as factory methods, sales methods and accounting methods are made the subject of careful study by the up-to-the-minute merchant.

You cannot hope to attach up-to-date credit department methods to an antiquated accounting system any more than the merest tyro would expect to get six-horse-power from a two-horse-power engine.

We here outline briefly the requisites of an accounting system that will permit the daily rendering of bills as they fall due, and the easy following up that should accompany such a system:

Loose-leaf sales ledgers alphabetically filed;

Loose-leaf day-books similarly filed;

Posting direct from day-book to ledger;

Draft records on ledger page;

Daily drafts concurrent with daily statements;

Perfect co-operation between credit man and accountants.

That is all. The rest is merely a matter of minor details, such as following up drafts, not making drafts where same are objectionable, but writing a polite note instead to accompany the statement, and the utter abandonment of rubber-stamp dunning or sticker or circular-letter dunning, which cannot be too strongly condemned.



A tickler date should be maintained on all delinquent accounts, to arrest new orders, and enable the credit man to connect up the new order with the delinquency and use it as his judgment deems best.

A maturity record should not be a set of cards or envelopes, but merely a loose-leaf book with a page or number of pages for each day's business, according to volume. The elimination of folios and addresses makes the writing up simple. The combining of bills falling due in a period of five or even ten days reduces labor, and prevents too frequent communication with the customer.

Every business has its peculiarities; and a daily rendering system must be fitted to the needs of the business; but the principle here given is the right one and should receive the thoughtful and careful consideration of every credit man who wishes to attain to the highest degree of efficiency.

Finally, we may say that in the last analysis the credit man's work should be properly judged by the net results in profits, and the nature of the accounts lost; and that as a going proposition it should be his constant aim to turn over the capital invested as often as possible, without resorting to demoralizing methods, such as excessive discount or allowances, to bring in the money early.

### **Some "Personal Appeal" Letters**

*Dear Sir:*

Small bills, however trifling, when considered singly, in the aggregate form a sum so large that the withholding has ruined an otherwise prosperous business. Happy is he who will cheerfully perform the duty of the moment, whatever it may be.

The above fact has appeared on our statements for many years; occasionally, however, some of our friends overlook that plain duty, the doing of which would make things so pleasant for us all.

Have you ever calculated how many thousands of dollars of accounts a single ten-dollar bill will pay, if "sent on its way rejoicing"?

We find you are overdue to us for an account of \$. . . . ., and if you will kindly read over the motto above and will then send us your check, we promise to "push it along," that it may do as much good to the other fellow.

Now, one good, strong pull; pull together!

Yours very truly,

.....

*Dear Sir:*

It was David Harum, we believe, who remarked that a certain amount of fleas is good for a dog because it keeps him from worrying over being a dog.

We all have our worries, some of them imaginary, some of them real. We have ours and you doubtless have yours, but if you had to run a shoe factory and butt up against some of our pay-rolls for leather and labor at this season, you'd appreciate the fact that financing a business like this is not an "unbroken romance."

Yours very truly,

.....

*Dear Sir:*

Do you remember Job?

He said: "All my appointed time will I wait, until my change come."

He waited—and his change came.

Neither Job, nor anyone else, past, present or future, can outdo us in patience. We have already waited our appointed time for your remittance which has not yet come, but we know it will, and, we trust, soon.

Now, please do not wait to see what our next letter is like. This is the longest letter we ever wrote, and if another one is necessary, it would have to be short and urgent, as we are very busy and need the money.

Thanking you in advance, we are

Yours very truly,

.....

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